Understanding

Customers' Requirements

FINANCIAL REVIEW

Fiscal year 2005 was a difficult year for the Group especially the second half of the year. The Group's turnover recorded a slight decrease of 1.6% to HK$591 million. The drop in net profit was more visible, from HK$42.8 million last year to HK$19.2 million this year, a decrease of 55.1%. It was the result of the significant drop in networking products sales and our increased investment in research and development and sales and marketing to brace us for future business growth.

Turnover

The Group's turnover for the year was HK$591 million, representing a slight decrease of 1.6% from last year. The growth in sales of consumer electronic appliances and digital A/V products was offset by the decrease in sales of networking products.

The sales of consumer electronic appliances grew 30.7% to reach HK$283 million, representing 47.9% of the Group's turnover. Pet training devices sales accounted for 57.9% of this segment's total sales for this year.

The sales of telecommunication products decreased by 24.5% to HK$272 million for the year. This segment accounted for 46.0% of Group's turnover, down from 60.0% last year. The decrease in sales this year was primarily due to the substantial drop in networking products sales by 35.1% from last year. However, orders for networking products have picked up in the first quarter of fiscal year 2006 and a 25.0% growth in sales over the last quarter of fiscal year 2005 has been recorded.

Digital A/V products recorded sales of HK$19 million for the year, representing 3.2% of the Group's turnover. Sales under the Group's own brand "Nachus" accounted for 84% of this segment's total sales while ODM sales of the Group's self-developed products accounted for 16%. The Group expects both Nachus brand sales and ODM sales of self-developed products to grow substantially in fiscal year 2006 and their contributions to this segment become more balanced.

Office automation products, comprising mainly LCD projectors, recorded further decline in sales during the year. As this business segment is no longer representative for the Group's core operation, it has been grouped under the "Others" category.

Geographically, Mainland China will remain as the major market of the Group. However, sales to Mainland China decreased by 31.2% this year to HK$243 million, representing 41.0% of the Group's turnover, down from 58.7% last year. Sales to the United States of America increased by 17.7% to HK$182 million, representing 30.7% of the Group's turnover, up from 25.7% last year.

FINANCIAL REVIEW *(Continued)*

Profit Attributable to Shareholders

The Group's gross profit decreased by 12.7% to HK$79.7 million from HK$91.3 million last year while gross profit margin decreased from 15.2% to 13.5%. The decrease in gross profit was mainly attributable to the substantial drop of networking products sales and increase in production costs. During the year, networking products sales decreased by HK$118 million, a drop of 35.1% from last year's. As the fixed overhead for networking production could not be proportionately reduced, our gross profit margin was inevitably affected. In addition, in order to gain volume and market share for our "Nachus" brand products, we lowered our selling price of some of our digital A/V products during the year.

Profit from operations was HK$26.1 million, compared with HK$48.7 million last year. Total operating expenses increased by 25.6% to HK$54.0 million from HK$43.0 million last year, representing 9.1% of the Group's total sales. Research and development expenses increased from HK$1.0 million to HK$4.6 million, approximately 0.8% of the Group's sales. The increase in research and development expenses was mainly due to the Group setting up a research and development team in July 2004. With 13 engineers on board, the team is responsible for developing innovative new products for the Group. Selling and distribution expenses rose to HK$16.7 million this year from HK$11.3 million last year. The increase included about HK$3.0 million for promoting our own brand "Nachus".

Finance costs increased to HK$3.6 million from HK$2.4 million last year as a result of the increase in bank borrowings. As the tax exemption period of Suga Networks Equipment (Shenzhen) Co., Ltd. expired during the year, taxation expense increased to HK$2.6 million this year from HK$2.3 million last year.

As a result of the above, net profit attributable to shareholders decreased to HK$19.2 million from last year's HK$42.8 million, representing a decrease of 55.1%.

INVESTMENT IN ASSOCIATED COMPANY

With a view to capture the growing opportunities in the electronic educational products market, the Group subscribed 3,000,000 ordinary shares of HK$1 each at par in Modern Tech Limited ("Modern Tech"), representing 29.27% of the total issued share capital of Modern Tech. Modern Tech is engaged in the development and sale of electronic educational products. The key feature of these products is the application of "Advance Speech Technology enhancing language learning" technology. Modern Tech is still in a start up phase, the first product of Modern Tech will be launched to the market in July 2005. The management believes that the investment will generate handsome returns to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Group's cash and bank balances amounted to HK$70 million while net current assets were HK$215 million. The current ratio as at 31 March 2005 was improved from 1.96 to 2.23.

Compared with last year's balances, the Group's inventories increased by 48% whereas trade receivables and trade payables decreased by 15% and 18% respectively. The substantial increase in inventories held at year-end was for catering the increased sale orders on hand and also the result of consolidation of the inventories of the newly acquired moulds and plastic components manufacturing company.

The Group's net bank borrowings as at balance sheet date was HK$67 million as compared to HK$34 million last year. Net gearing ratio, based on net borrowings to equity, was 32.2% (2004: 17.1%). Increase in bank borrowings was primarily a result of the increase in inventories held, investment and capital expenditure during the year.

As at 31 March 2005, the Group had aggregate banking facilities of approximately HK$370 million (2004: HK$252 million) from several banks for overdrafts, loans and trade financing, with an unused balance of approximately HK$202 million (2004: HK$112 million).

TREASURY POLICIES

The Group generally finances its operations by internally generated resources and banking facilities provided by its principal bankers in Hong Kong. Banking facilities of the Group include overdrafts, leasing, term loans and trust receipt loans, which are principally on the floating interest rates. Most of the Group's business transactions are denominated either in Hong Kong dollars, US dollars or Renminbi. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact to the Group.

PLEDGE OF ASSETS

As at 31 March 2005, the Group did not pledge any of its assets (2004: nil) as securities for generating banking facilities granted to the Group.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liability at the balance sheet date.

EMPLOYEES

As at 31 March 2005 the Group had approximately 2000 employees, of which 80 were based in Hong Kong, 3 in Singapore and the rest were mainly in the PRC. Competitive remuneration packages are structured to commensurate employees with reference to their individual job duties, qualification, performance and years of experience. In addition to salaries and other usual benefits like annual leave, medical insurance and provident fund, the Group also provides educational sponsorship subsidies, discretionary performance bonus and share options. A share option scheme was adopted on 17 September 2002 which is valid and effective for a period of 10 years from the adoption date, the details of which are specified in the Section "Share Option Scheme" on page 25.