

CHAIRMAN'S STATEMENT

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OVERVIEW

The second half of 2005 presented a very challenging business environment to the Group which, after the encouraging start in the first half of the year, resulted in a very disappointing result for the full year 2005. No single factor accounted for the setback in performance in 2005, which reflects the difficult trading conditions that the company is encountering and the cost associated with the company's transition away from low cost basic telephones towards higher value added telecommunication products and its expansion into new markets.

Whilst overall sales value decreased approximately 14% from 2004 to HK\$2,001 million, the vast majority of this decrease was accounted for by the phasing out of our sales of analogue cordless telephones, which represent an older technology. In 2005 we managed to sell 7.6 million units of Digital Enhanced Cordless Telephones ("DECT") an increase of 2.3% over 2004, which enabled us to achieve a slight increase in our market share in Europe to 20.1%, up from 19.5% in 2004, based on total units sold. DECT products accounted for 95% of sales, up from 89% in the previous year. Western Europe continued to be our main geographical focus with the Group achieving sales in over 10 countries including our main markets of Italy, the UK and France. We had expected to see a greater demand for DECT in the second half in Europe. However we encountered difficult trading conditions there, mainly attributable to an unexpectedly very weak consumer market in Europe in the third and fourth quarters, which we believe was due to the London bombings, the depreciation in Euro and various political uncertainties right across Europe that seemed to sap European consumer confidence. This situation is improving, but slowly.

Our gross profit was impacted by the increases in costs mentioned earlier, declining to HK\$149 million, to give a gross margin of 7.4%. EBITDA was HK\$69 million. Net income before tax fell 89% to HK\$12.4 million. Our profitability was impacted by market conditions and, more importantly, by a seemingly relentless increase in overall operating costs caused by increases in component costs, oil prices, the minimum labour wages in Guangdong, China and the increase in the RMB exchange rate. We have taken measures to address the cost pressures mentioned above to attempt to achieve improved production efficiencies.

概覽

儘管二零零五年上半年錄得理想業績，惟下半年的營商環境充滿挑戰，令本集團二零零五年的全年業績令人失望。業績欠佳反映本集團正面對困難的營商環境，以及本公司將業務重心由低成本基本電話轉至高增值電訊產品和市場擴展所帶來的成本壓力。

整體銷售較二零零四年下跌約14%至2,001,000,000港元，主要由於技術較落後的模擬無線電話銷售下降所致。於二零零五年，本集團售出7,600,000部數碼室內無線電話（「DECT」），較二零零四年增加2.3%。按出售數量計算，本集團的歐洲市場份額由二零零四年的19.5%輕微上升至20.1%。DECT產品佔銷售額95%，去年則為89%。歐洲仍為本集團主要地域市場，本集團於當中逾10個國家（包括意大利、英國及法國等主要市場）均錄得銷售額。本集團之前預期下半年歐洲市場對DECT產品的需求將會增加；然而，倫敦發生爆炸案、歐元貶值及歐洲各地多項政治不明朗因素嚴重打擊歐洲消費市場，令本集團於第三及第四季面對非常困難的營商環境。歐洲市場情況已逐步改善，惟進度緩慢。

本集團的毛利，由於受到上述成本上升影響，下跌至149,000,000港元，毛利率為7.4%。除利息、稅項、折舊及攤銷前溢利（「EBITDA」）為69,000,000港元，除稅前溢利淨額下降89%至12,400,000港元。市場情況直接影響本集團的盈利水平，更重要是零件成本及油價高企、中國廣東省實施最低工資及人民幣匯率上升導致整體經營成本上升，對本集團盈利構成嚴重影響。為應付上述成本壓力，本集團已推行一連串措施以改善生產效率。

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In addition, as explained below, we made a conscious decision to increase our spending on R & D by over 66% from HK\$57 million in 2004 to HK\$95 million. This was done in order to accelerate our move away from low cost telephones into more sophisticated communications products such as video telephones, cordless telephones incorporating Bluetooth technologies, cordless telephones and video telephones incorporating Wifi (wireless LAN) technology and Voice Over Internet Protocol (VoIP) technology. Clearly the market for such devices will both be global and substantial in 2006 and 2007.

DIVIDENDS

The Board does not recommend payment of any final dividend for the year ended 31 December 2005. An interim dividend of HK3 cents per share was paid on 31 August 2005.

BUSINESS

Our business is the development, manufacture and sale of residential telecommunications products. According to industry studies we continue to hold a leading position in the European market with a 20.6% market share, based on total units sold. We currently sell to over 10 markets in Europe and DECT continues to be our single largest category.

A key distinguishing feature of 2005, as you will see in our accounts, is the increased expenditure on R & D. This increase has been primarily attributable to the funding of SunCorp Applied Research Limited ("SARL") (formerly Mansella Limited) that we acquired in 2004. Let me explain the rationale for this increase. SunCorp sees its position in the mid-to-high end segment of the market for residential communications. As such, it is essential for us to continue to build on our reputation as a flexible supplier of innovative and attractive communications products. The market is becoming more sophisticated and an emphasis on low-end, commoditized products is not a viable strategy.

More importantly, however, the nature of home communications is changing, with broadband and VoIP service providers seeking to play a central role in any future configuration of home communications.

此外，如下所述，本集團於年內作出一項審慎決策—增加於研發方面的開支66%由二零零四年之57,000,000港元至二零零五年之95,000,000港元。此舉有助本集團加快由低成本電話轉向發展更精密電訊產品，如視像電話、配備藍芽技術的無線電話、配備Wifi(無線區域網)技術以及互聯網語音科技(VoIP)的無線電話及視像電話。預期於二零零六年及二零零七年，全球市場對此等設備的需求將明顯增加。

股息

董事會並不建議派付截至二零零五年十二月三十一日止年度之任何末期股息。每股3港仙之中期股息已於二零零五年八月三十一日派付。

業務

本集團之業務為開發、製造及銷售家居電訊產品。根據市場研究顯示，按出售貨物計算，本集團於歐洲市場之市場份額為20.6%，仍然保持歐洲市場之領導地位。在歐洲市場方面，本集團現時銷售予超過10個市場。DECT仍然為本集團之單一主要產品類別。

從本集團的賬目可見，二零零五年與過往年度最主要的區別為本集團於研發活動方面的開支上升。此乃來自本集團於二零零四年收購SunCorp Applied Research Limited ("SARL") (前稱Mansella Limited) 後，所投放的資金所致。讓我解釋是項增加的原因。新確科技意識到其於中高端家居通訊產品市場的地位，因此，持續建立創新及具吸引力電訊產品的靈活供應商之聲譽對本集團非常重要。鑒於市場漸趨嚴謹，專注低端商業產品的策略已不可行。

然而，更重要的是，住宅電訊產品的性質正不斷轉變，寬頻及VoIP服務供應商將於未來住宅電訊產品的配置方面擔當舉足輕重的角色。

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To that end we have invested in 2005 in the following products:

- Bluetooth slide phone. This award winning design which synchronises with mobile phones for call transfer in and out of the home and phonebook management commences mass production this month. It is the first of its kind in the world and is part of a new range of devices embedding this technology.
 - Aladino MMS2 for Telecom Italia is a high end DECT cordless telephone that features all of Telecom's MMS features from its mobile phone division and its fixed network division. This allows for full picture and ringtone transfer across both networks to other mobile devices and videophones. Mass production started this month also.
 - Aladino VoIP for Telecom Italia is a DECT cordless phone with VoIP embedded into its base station allowing for VoIP telephone calls to take place without the need for any connection to a PC. Mass production starts in May 2006.
 - Broadband Video telephone with large full colour screen will be launched for British Telecom in June. It allows users to talk and see the calling party in full motion.
 - In the US market we will launch a full line up of DECT 6.0 cordless telephones incorporating VoIP under the XACT brand with our joint venture partners in June.
 - DECT 6.0 products for the USA will also embed PC hosted software for free voice calling similar to that offered by service providers such as Skype, Yahoo and MSN. DECT 6.0 is a new standard approved by the FCC in the USA for use of cordless telephones in the home. It will be a clean "interference free" communication frequency avoiding interference from such devices as Wireless LAN routers and microwave ovens.
- 為把握此等趨勢，本集團於二零零五年作出以下產品系列的投資：
- 藍芽滑蓋電話。此項獲獎產品支援流動及室內電話目錄的自動同步運作。產品已於本月開始大量生產，並成為此電話類別中的全球首項產品，及後本集團將推出更多配備此技術的其他產品。
 - 為 Telecom Italia製造的 Aladino MMS2為一項高端DECT產品，擁有 Telecom Italia的流動電話部門及固網部門的所有MMS特點，用戶可透過兩個網絡轉送整張相片及鈴聲至其他流動設備及視像電話。本集團亦已於本月展開大量生產。
 - 為 Telecom Italia製造的 Aladino VoIP 為一項DECT產品，VoIP已內置於其主機，用戶可在毋須接駁電腦的情況下作出VoIP電話對話。此產品將於二零零六年五月展開大量生產。
 - 於二零零六年六月為英國電訊推出配備全彩色屏幕的寬頻視像電話，讓用戶在與來電者交談的同時，更可看見對方的動態影像。
 - 於二零零六年六月與合資企業夥伴於美國市場推出全線XACT品牌，並配備VoIP技術的DECT 6.0無線電話。
 - 為美國市場而設的DECT 6.0產品內置個人電腦主機軟件，讓用戶可使用如Skype、Yahoo及MSN所提供的免費話音通訊服務。DECT 6.0已獲美國聯邦通訊委員會批准成為住宅無線電話應用新技術。DECT 6.0科技為真正「不受干擾」的通訊頻率，可避免受到自無線區域網絡及微波爐所發出的干擾。

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All of these products are meant to position us at the centre of broadband and VoIP communications, and leverage off our knowledge of DECT and our network of major global telcos, who are rapidly deploying broadband and VoIP moving to meet the challenge offered by providers such as Skype, Yahoo and MSN.

RECENT DEVELOPMENTS

USA: Xact Sun

Earlier this year we announced that we had finalized joint venture arrangements with Xact Communication of the USA for an initial term up to 31 December 2010 to develop the USA market for telecom products, including VoIP products on the DECT 6.0 platform. The joint venture, called Xact Sun, has already become operational and the first products to be sold under this arrangement will be shipped in June 2006. Our partner Xact Communication (www.xactcommunication.com) is a full service provider of consumer electronics products.

Australia

As announced in March this year, we have established a full representative office in Australia in order to better serve that market.

OUTLOOK

We have been very successful in maintaining and slightly increasing our market share in Europe and Australia in the past year. The initial response from our early initiatives in the US has been very encouraging, and we anticipate that the US possibly could account for at least 10% of our sales this year, and eventually grow to a size similar to that of our European market.

However, we face a number of challenges, most of which are common to our industry and manufacturing businesses in China generally. Firstly, we have faced, and are facing, continuing cost pressures in the form of increasing material and component costs and increasing labour wages in China, both in local currency terms and also after factoring in the increase in the RMB exchange rate. The recent announcement of further increases in minimum labour wages in Guangdong imposes additional cost pressures and will accelerate our move to higher end products at

上述產品反映本集團於DECT的豐富專業知識，加上本集團於寬頻及VoIP方面的技術、以及強大的客戶網絡(為Skype、Yahoo及MSN等供應商所提供的機遇而積極發展寬頻及VoIP技術的全球主要電訊公司)均為本集團於寬頻及VoIP通訊市場建立領導地位。

近期發展

美國：Xact Sun

年初，本集團宣佈與美國Xact Communication訂定合資安排，初步有效期至二零一零年十二月三十一日，旨在開發美國電訊產品市場，包括以DECT 6.0平台為基礎的互聯網語音(「VoIP」)電話產品。稱為Xact Sun之合資企業已開始投入營運，並將於二零零六年六月付運根據此項安排銷售之首項產品。本集團之夥伴Xact Communication (www.xactcommunication.com)為全面的先進消費電子產品服務供應商。

澳洲

誠如本年度三月所公佈，本集團已於澳洲成立代表辦事處，務求為該市場提供更完善之服務。

展望

本集團於去年成功鞏固在歐洲及澳洲之市場份額，並錄得輕微增長。而進軍美國市場之策略亦取得令人鼓舞之成績，本集團預料美國市場有望於本年度佔至少10%之銷售額，最終與歐洲市場並駕齊驅。

然而，本集團於年內亦面對不少困難，但此乃中國電訊產業及製造業之普遍現象。首先，就當地貨幣而言，以及人民幣匯率上漲所影響，原材料及零件成本上升，以及中國工資增加，令本集團過去及現在繼續承受沉重之成本壓力。廣東省最近公佈進一步提高最低工資，亦為本集團增添額外成本壓力。就此而

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more efficient and cost effective facilities. Recent oil price increases have led to higher plastic costs, and prices of metals such as copper have led to higher costs of components. Charges for power and other utilities in China have continued to rise. To date, the end-product market has refused to absorb these increases.

We are taking a number of steps to address these challenges. We are working on the establishment of additional manufacturing facilities in cheaper locations, particularly outside Guangdong province, and are re-designing our manufacturing processes to reduce our reliance on in-house labour. In addition, we are reviewing our supply chain processes to explore ways of achieving efficiencies and further cost savings. We are in the process of implementing a new ERP to improve our information system.

This first quarter of 2006 continued to be difficult, as our new products releases did not start until this month. We have started to see an improvement in demand in Europe, and the initial response from the US to our recent product launch there bodes well. Although it is still too early in the year to comment with any certainty, we are cautiously optimistic that we will see satisfactory sales growth in 2006 over 2005.

While are focused on addressing the cost and profitability issues that are discussed above we also believe that we are well positioned with an exciting range of products that will appeal to both European and US markets. Our strategy continues to be regarded as a prime developer of innovative products and as a responsive and flexible supplier of telecommunication products.

We would like to thank our customers and suppliers for their support during the year and our employees for all their hard work and dedication.

言，本集團將加快採用更高效率及符合成本效益之設施，生產高端產品。此外，近期油價上漲亦引發塑料及金屬(如銅)之價格提升，令零件價格高企。中國之電力及其他公用事業開支亦相繼上調。現時，終端產品市場已開始拒絕接納此等升幅。

面對重重挑戰，本集團已採取一系列積極措施，例如物色生產成本低廉之地區(尤其是在廣東省以外)設立生產設施，重新設計生產程序以減少依賴本身之勞工。此外，本集團現正檢討供應鏈程序，以發掘更具成本效益及可進一步節省成本之途徑。集團亦正實施企業資源規劃去改善資訊系統。

由於本集團於本月才開始推出新產品，因此二零零六年首季之情況未見好轉。然而，歐洲市場之需求量已開始呈上升趨勢，本集團近期於美國推出新產品，市場初步反應踴躍。儘管現時僅是年初，但本集團維持審慎樂觀，預料二零零六年相比二零零五年將有令人滿意的銷售增長。

如上文所述，本集團將專注應付成本及盈利能力之問題。與此同時，憑藉對歐洲及美國市場甚具吸引力之多元化產品系列，我們已準備就緒，於本年度為本集團帶來業務增長。本集團的策略將繼續為維持創新產品供應商之定位，並根據市場需求靈活提供所需之電訊產品。

本集團感謝客戶及供應商於年內的支持，以及員工們的全情投入及不斷努力。