MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Financial

During the financial year, the turnover of the Group amounted to HK$446 million, representing a 74% increase compared to the year 2002. Net profit attributable to shareholders was HK$58.7 million for the year ended 31 December 2003, representing an upsurge of 155% as compared to HK$23.0 million for the year ended 31 December 2002.

Operational

Segmental information

The Group maintains its core manufacturing activities in the electronic and electrical accessories and ironware parts. The Group's products are divided into 3 main categories namely, Electrical Fittings, Ironware Parts and Communication Facilities.

a. *Electrical fittings*

There are three main products in this sector namely, In-mould Decoration (IMD), Membrane Touch Switches (MTS) and Trademarks.

For IMD, the turnover for the year 2003 has increased to 3 times of last year's turnover. The profit contribution from this sector is over 30% of the total Group's profits. It is the most significant growing point of the Group for the current and coming years.

The significant growth of demand for IMD products is mainly due to the strong growth in the handset market in China, especially "Made in China" handsets. The demand of the handset accessories has soared. Our Group has developed these products since 2000. The production technique is mature and matches with the booming production of "Made in China" handsets during the year.

The sales orders for IMD remains strong after the year end date and we expect that the growth in this sector will be more significant in terms of both the absolute amount of sales and the profit contribution in the coming years. The group's product mix will change accordingly.

Membrane Touch Switches (MTS) and trademarks, including crystal-cutting and diamond-cutting, maintained a stable return and steady contribution to the Group during the year.

b. *Ironware parts*

With the new plant in Shenzhen, Guangdong Province in operation, the overall sales of these categories have grown by over 64% compared to last year. The turnover of the new plant is already approaching HK$60 million during the year and this accounts for the majority of the growth in the division. Expansion of production of the new plant will be continued in the coming two years before become fully operational.

BUSINESS REVIEW *(continued)*

Operational *(continued)*

Segmental information (continued)

b. *Ironware parts (continued)*

The Aluminium products have grown by about 37% compared to last year. The growth in this area is mainly due to the market growth in sales of advanced models of electrical appliances which are using aluminium material as a replacement for plastic models. Continued growth for demand of this products is expected as the demand for advanced models of appliances is increased.

c. *Communication facilities*

Fiber Optic Cable

The business stabilised during the year and was helped by the support of big customers such as China Telecom, China Mobile and Chinese TV Broadcast. The turnover has increased and the overall performance has improved. This was a turn around year for the business and it is expected to have moderate growth in the coming years, which we expect to be broadly in-line with the performance of fiber optic markets in China.

Digital satellite TV modems

After several years of operation, the demand for modems is gradually picking up, in particular for the demand in the region of the Middle East. There is growth in demand for these kinds of modem in these areas leading to an increase of 3.4 times of last year's turnover. We expect this sales trend to continue in the coming years, although growing at a slower rate.

Set-top boxes

We recorded no sales during the year while testing our products, but orders have started from the first quarter in the year of 2004. We expect growth in this business in the coming years.

d. *Trading of electrical appliances*

"Made in China" electrical appliances are still welcomed in Australia and sales have increased by 3.3 times compared with last year. The trading business of the Group remain stable and is expected to have a fair growth in the coming years.

Liquidity and financial resources

The liquidity of the Group has been improved a lot with the following developments:

a) completion of its factory located in Shenzhen;

b) major acquisitions of machinery have been completed in the past 2 years;

c) turnover and profitability of the Group have been improved drastically during the year;

BUSINESS REVIEW *(continued)*

Liquidity and financial resources *(continued)*

Our Group generally financed its development and operations with internally generated cash flow and other banking facilities by its principal bankers. Subsequent to the year end, in January 2004, our Group has raised additional funds in the open market by issuing 227,500,000 new shares and the net proceeds amounting to approximately HK$43.8 million.

As at 31 December 2003, it has cash and bank balances of HK$56,864,000 (2002: HK$37,270,000), of which more than 90 per cent were denominated in Hong Kong dollars and RMB. Our Group carries on its trade mainly in Hong Kong dollars and RMB. As the exchange rates of RMB against Hong Kong dollar were relatively stable, the Group was not exposed to any material exchange rate fluctuation.

As at 31 December 2003, the gearing ratio was 0.55 (2002: 0.48), representing total liabilities, HK$304,993,000 (2002: HK$186,360,000), divided by total assets, HK$551,600,000 (2002: HK$390,585,000).

Employee

As at 31 December 2003, the Group had over 2,400 employee. The Group provides competitive remuneration packages to employee commensurate to the level and market trend of pay in the business in which the Group operates, with mandatory provident fund schemes and a share option scheme.

Capital structure

All of the Company's shares are ordinary shares. Other than the non-current portion of bank loans of HK$7.3 million (2002: HK$6.9 million), the Group's borrowings are repayable within one year as at the balance sheet date.

Charge on assets

The Company's properties at Room 1201-03, 12/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong and 7C Sea Bright Plaza, 9-23 Shell Street, North Point, Hong Kong were pledged as a first legal charge to banks for securing certain of the banking facilities for the Group's operation.

Contingent liabilities

At the balance sheet date, the Company had contingent liabilities in respect of corporate guarantees given to banks in connection with facilities granted to certain subsidiaries and an associate, which were utilised to the extent of HK$16.1 million (2002: HK$5.3 million).

Save as disclosed above, neither the Group nor the Company had any significant contingent liabilities at the balance sheet date.