

MANAGEMENT DISCUSSION AND ANALYSIS

Financial status

Result for the Period

During the Period, the turnover of the Group amounted to HK\$394.0 million, representing 2.2 times of the same period of last year. Net profit attributable to shareholders for the Period was HK\$58.7 million, representing 2.6 times of the same period of last year.

Liquidity and financial resources

At 30 June 2004, the Group had total assets of HK\$738.5 million (31 December 2003: HK\$551.6 million); net current assets of HK\$84.3 million (31 December 2003: HK\$30.6 million) and shareholders equity of HK\$328.4 million (31 December 2003: HK\$238.4 million).

The Group's cash and bank balance as at 30 June 2004 was maintained at about HK\$65.7 million (31 December 2003: HK\$56.9 million), out of which HK\$6.2 million has been pledged to bank to secure banking facilities granted (31 December 2003: HK\$7.9 million).

The gearing ratio (total debt/total asset of the Group) was 0.54 (31 December 2003: 0.55).

On 23 January 2004, the Group has raised additional funds in the open market by issuing 227,500,000 new shares and the net proceeds amounts to approximately HK\$43.8 million. Of which, approximately HK\$32 million was applied to acquire machineries for expansion of production facilities and the remaining balance was applied as working capital.

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollar, Renminbi and US dollar. There is no significant fluctuation in the exchange rate between Hong Kong dollar and Renminbi, the Group believes that the risk of exposure to exchange rate is minimal.

Contingent liabilities and capital structure

At 30 June 2004, the Company had contingent liabilities in respect of corporate guarantees provided for banking facilities for certain subsidiaries and an associate, which were utilised to the extent of HK\$32.8 million (31 December 2003: HK\$16.1 million).

Save as disclosed above neither the Group, nor the Company, had any significant contingent liabilities as at 30 June 2004.

All of the Company's shares are ordinary shares. Other than the non-current portion of bank loans of HK\$6.6 million (31 December 2003: HK\$7.3 million), the Group's borrowings are repayable within one year as at the balance sheet date.

Pledge of assets

Certain of the Group's borrowings at 30 June 2004 were secured by bank deposits, leasehold land and buildings and investment properties situated in Hong Kong owned by the Group.

Employee

At 30 June 2004, the Group had approximately 3,900 employees (31 December 2003: 2,400). 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.

BUSINESS REVIEW AND FUTURE PLAN

Business Review

The prosperous growth of the manufacturing market in China remains offering a golden opportunity for the Group to grow. The Group is committed to strengthen its position as one of the leading accessories supplier in the Region. During the Period, the Group has enjoyed a remarkable growth from most of the operation divisions.

The most excited expansion sector is in the In-Mould Decoration (IMD). The Group continues to expand and increases its market share in the IMD supplies to the handset manufacturers. The result both in terms of turnover and profit contribution are encouraging and are relatively significant to the growth contribution. During the Period, the turnover of IMD has been produced more than 16 million pieces which is 1.3 times of 2003's whole year's production. This product is now approaching to one third of the Group's turnover. In view of the customer response and the sales orders on hand, continuous growth both in the demand and production for IMD are expected.

Owing to the above, the Electrical Fittings Division has reached to 35% of the whole Group's turnover.

The factory in Shenzhen, Guangdong Province, which was established in the year of 2002 to capture the demand of customers in the Region, in particular the international customers, was also experienced an outstanding growth during the Period. Continuing efforts to consolidate the business and to strengthen the relationship with the customers, has generated substantial returns to the Group and the factory becomes a significant operation unit under Ironware Parts Division of the Group. During the Period, the factory has contributed approximately 30% of the turnover in the Ironware Parts Division. The aluminous alloy products also experience major growth during the Period, it has occupied about 30% of the turnover in the Ironware Parts Division.

In the Communication Facilities Division, the turnover has increased for 67% in comparing with same period of last year, in which the fiber optic cable business has outstanding performance. This Division consistently generated stable return to the Group.

The Group reiterates that the most important intangible asset of the Group is its prestige customer base. During the Period, the top 20 customers include Amoisonic, Bird, Changhong, China Mobile, China Telecom, Coship, Electrolux, Eurostar, Gree, Haier, Hisence, Meiling, Philips, Samsung, Satco Telecom, Sony, TCL, TPV, Utstarcom, Vtech, which have accounted for over two-third of the Group's total turnover.

Future Plan

The Group reaffirms its commitment to deliver a comprehensive range of accessories supplies to the prestige manufacturers in the Great China region and the result is encouraging.

Looking into the future, the Group will focus in the following areas:

- i) Broadening the customer base and increasing the number of the prestige international brandname customers;
- ii) Diversifying handset accessories supplies to the existing customers;
- iii) Exploring the IMD application to other consumer or commercial products;
- iv) Widening the application of aluminous alloy products from the relatively big electrical appliances to the relatively small size products such as digital camera and;
- v) Starting to manufacture the set top box and selling to the China market.

We trust that the direction is correct. The management team is full of confidence to maintain consistent growth to the Group as a whole.