MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2006, the Group recorded turnover of HK$551.1 million, 13% more than the HK$486.6 million in the same period last year. Net profit attributable to shareholders surged 61% to HK$73.3 million (2005: HK$45.5 million). The improvement of the Group's profitability is due to product mix change, and Electrical Fittings Division has grown rapidly during the period.

Electrical Fittings Division

Turnover from the Electrical Fittings Division increased by 43.5% to HK$228.6 million (2005: HK$159.3 million). The substantial growth was mainly attributable to the securing of new customers and diversification of product range. As the Group gained further recognition in the market for its product quality and its efficient and competitive "time-to-delivery" services, its products boasted resilient selling prices. Gross margin has improved to 28.6% (2005: 26.3%).

Sales of In-Mould Decoration ("IMD") amounted to HK$206.2 million (2005: 124.1 million), accounting for 90% of the Division's turnover (2005: 78%). Total production of IMD during the period around 40 million pieces. Apart from application in household electrical appliances, mobile handsets, electronic data banks and MP3s, the Group further diversified IMD application to cover bluetooth products.

The Group's two new handset accessories products, namely hinges and sliding lids, started to bring in revenue for the period. The Group sees high potential for these products in sales and profit contribution in the future as these products enjoy relatively high profit margins.

Ironware Parts Division

Turnover from this Division amounted to HK$187.2 million (2005: HK$206.4 million). The decrease was owing to the disposal of an old metal factory in Fujian, the PRC, in 2005. The disposal was a strategic move of the Group to phase out traditional business of manufacturing casings for computer, DVD and VCD, which had relatively low profit margins. Consequently, the Division's gross margin improved slightly at 7.5% from last year's 5.2%.

The Group's efforts to extend its international client base and focus on higher margin products, such as plasma and LCD TV, digital camera and MP3 casings, have been successful. During the period under review, sales of aluminum alloy products remain stable and has reached to HK$106.2 million (2005: HK$101.7 million), driven by the strong demand for plasma and LCD TV casings. The Group's new international customers for its ironware products include major brand names like Cisco, Pace, Samsung and Sony.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Communication Facilities Division

Turnover from this Division remains stable at HK$101.8 million (2005: HK$100.2 million).

Sales of the Group's "Tongtel" satellite television modem grew mildly and continued to account for the biggest portion of the Division's turnover, remain at 63.5% (2005: 68%). The product is mainly sold to the Middle East, the major market of the Group's television modem business.

With the fiber optic cable market continued to be sluggish, and the business was affected by long receivable period and relatively low margins, the Group decided to stop investing in this business and directed its resources into other more profitable businesses.

Trading Division

Turnover from trading of China made electrical appliances to Australia amounted to HK$29.3 million (2005: HK$20.7 million), increased by 41.5%. This division not only continued to provide a stable source of income to the Group, but also helped the Group to maintain good trading relationships with vendors who are its major customers.

Liquidity and financial resources

At 30 June 2006, the Group had total assets of HK$1,056.1 million (31 December 2005: HK$1,010.7 million); net current assets of HK$234.4 million (31 December 2005: HK$212.0 million) and capital and reserves of HK$525.9 million (31 December 2005: HK$481.3 million).

The Group's cash and bank balance as at 30 June 2006 was maintained at about HK$98.9 million (31 December 2005: HK$112.4 million), out of which HK$4.7 million has been pledged to bank to secure banking facilities granted (31 December 2005: HK$9.3 million).

The gearing ratio (total debt/total asset of the Group) was 0.50 (31 December 2005: 0.52).

During the period, the Group entered into a loan agreement with, among other parties, Hang Seng Bank Limited and the Hongkong and Shanghai Banking Corporation Limited as coordinating arrangers in respect of the term loan facility up to an aggregate amount of HK$200 million.

As at 30 June 2006, the Group utilised HK$125 million to repay the previous long term loan and the balance HK$75 million has not been drawdown at the period ended. The effective interest rate of the Group's long term bank loan is HIBOR plus 1.10% and it is supported by the corporate guarantees from the Company's subsidiaries.

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Contingent liabilities and capital structure

At 30 June 2006, the Group had contingent liabilities in respect of outstanding irrevocable letters of credit of HK$25.3 million (31 December 2005: HK$44.0 million).

Save as disclosed above, the Group did not have any significant contingent liabilities at the balance sheet date.

All of the Company's shares are ordinary shares. Other than the non-current portion of bank loans of HK$125 million (31 December 2005: HK$93.8 million), the Group's borrowings are repayable within one year as at the balance sheet date.

Employee

At 30 June 2006, the Group had approximately 6,300 employees (31 December 2005: 7,000). The Group starts to improve its automation production from the end of last year and targets to reduce the number of labours despite of the foreseen increasing turnover. 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.

PROSPECTS

The Group remains optimistic about the outlook of its business. Building on its rapid growth in the past few years, the Group has made further inroads into the international market. Having devoted extensive efforts into broadening its customer base to include major international brands, the Group expects this to be a major breakthrough for its business which may result in significant sales volume growth in the coming years.

As a part of its expansion strategy to increase market share in Japan, the Group entered into a letter of intent with Kaga Electronics Co. Ltd. ("Kaga"), one of the largest electronic trading houses in Japan, in May 2006 whereby Kaga shall become the sole distributor of the Group's products in Japan. The formal agreement is expected to be finalised in the second half of the year. The Group expects the partnership to expedite its sales in Japan and to contribute significantly to the Group's overall performance in the next three to five years.

PROSPECTS *(Continued)*

The Group's main product, IMD for handsets, has already captured a major market share in the PRC market. Building on this solid track record, the Group has been actively exploring opportunities for its product in the international market in the past few years. We are in negotiation with several first-tier international handset manufacturers, and these manufacturers are expected to appoint the Group as their qualified vendor in the coming months. The Group is confident of receiving bulk orders after sample orders are delivered to these potential clients. The Group will continue this proven strategy of adding internationally renowned brand names into its clientele.

The Group will continue researching on profitable accessories, and seek to further diversify IMD applications to cover other handset accessories products such as keypads in handsets.

With its constant efforts to improve overall production scale, the new factory set up jointly by the Group and Amoy Electronics Company Limited, a major handset manufacturer in the PRC, began trial operation at the end of 2005. As it has already recorded a few million profits in the first few months of operation, we are very optimistic about its future. The plant mainly manufactures handset and notebook computer casings. This strategic partnership is expected to help expand the Group's share in the mobile handset market and widen the Group's range of communications accessories.

In addition, the Group's new factory building in its main production base in Shishi, Fujian, has been operating since July 2006 to meet growing IMD orders. The Group has invested over HK$30 million in this facility which is expected to double the Group's total annual production capacity of IMD to over 150 million pieces.

To equip itself for rapid expansion and achieve better cost control, the Group has started to increase automation of its production process from 2006 and has significantly lowered its reliance on laborers during the review period.

Apart from striving for organic growth by continuous expansion of the international market, product diversification and R&D to further improve product quality and profitability, the Group will continue to seek opportunities in mergers and acquisitions or through cooperation or strategic alliances with large corporations to accelerate development of its core business.