

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. Financial

For the year ended 31 December 2005, the Group's turnover was approximately HK\$1,112 million, representing a growth of about 36% compared to year 2004, and recorded a profit of approximately HK\$124.8 million, a growth of about 27% compared to year 2004.

The Group sustained consistent growth during the year. Each of the business segments has shown a contribution to the growth.

2. Operational

Segmental information

a. Electrical Fittings Division

The core product in this Division remains on In-Mould Decoration (IMD), which has occupied more than 92% (2004: 80%) of the gross sales in this Division. The profit contribution of IMD occupies more than 52% (2004: 40%) of the Group's profit.

IMD is applying in handset and electrical appliance market.

- (i) Application in handset market: the adoption of vacuum coating new technology and the enhanced alloy effect provide the products with more beautiful artistic exteriors and a higher popularity in the market. During the year, the total production of IMD exceeded 52 million pieces, representing about 17% of the overall production of handset panels in China, based on total production of 300 million handsets being manufactured in China.
- (ii) Application in household electrical appliance market: the production amounted to over 9 million pieces, representing about 8% of the volume of production of white goods in China in the year of 2005 most of which are refrigerators, air conditioners and washing machines.

With the recovery of domestic handset market in China in the second half year of 2005, the demand for our IMD product has experienced a fair rapid growth. Accompanied with the improving living standard of Chinese, the consumer market in China is prosperous and requires for high quality products to stimulate spending. There are huge demand in electronic or electrical equipments, like mobile handset, MP3, digital camera etc. It has created a tremendous opportunities to our products; IMD targets to serve the high standard and high quality handsets and electrical appliances for the prestige manufacturers. In the coming years, we expect this trend will continue and the demand and sales of IMD will increase steadily.

Management's Discussion and Analysis

BUSINESS REVIEW *(continued)*

2. Operational *(continued)*

Segmental information (continued)

a. Electrical Fittings Division *(continued)*

Diversification of application of IMD remains our Company's strategy. We have success in applying IMD in MP3 during the year. Other sector of products such as bluetooth, game sets and motor vehicles are still exploring.

Looking ahead, we are confidence that our products will break into international handset manufacturers market leading to an explosive growth to our Group.

b. Ironware Parts Division

During the year, the Company has disposed a metal manufacturing factory ("Tongda Metal") in Shishi City, Fujian Province, the PRC. The factory produces traditional computer casing and DVD and/or VCD casing, which have a relatively low profit margin, especially in the past 2 years.

After the disposal of Tongda Metal, the Division is now concentrated to produce casing for plasma and LCD TV, digital camera and MP3, and coil fan for motor vehicle etc, which has a relatively higher gross margin as compared with the Tongda Metal. We also manufactures casing of satellite TV modem for international customers. With the above restructuring in this Division, the management has confidence to have better control and management of the resources to enhance the competitiveness of the Group.

During the year, the operation of the factory in Shenzhen, Guangdong Province has grown by nearly 70% in comparing with last year.

The turnover of aluminium products has also grown by 50% in comparing with last year. The production of PMMA panel TV set frames and aluminium alloy TV set frames amounted to almost 300,000 pieces, representing 17% of the 1.8 million pieces of panel TV sets manufactured in China in the year of 2005.

Although the drastic downturn of profit margin of Tongda Metal during the year, has added pressure to the Division's profit margin, with concentration in the relatively high value-added products, the Division can maintain its profitability in the coming years.

Management's Discussion and Analysis

BUSINESS REVIEW *(continued)*

2. Operational *(continued)*

Segmental information (continued)

b. Ironware Parts Division *(continued)*

With the development of household electronic and electrical appliances, the demand for ironware will be on the rise. The product development strategy in 2006 is to improve the development and production capability of big tonnage pressing products rare in the market and precision products produced with advanced technology. We are optimistic about the growth in the coming year.

c. Communication Facilities Division

Digital Satellite Television Modems

During the year, the sales on "digital satellite television modems" are booming. The production of the year exceeded 500,000 sets, representing over two times of that of last year. The market for the products is enormous. With the expansion and promotion efforts in the Middle East and Southeast Asia for the past few years. "Tongtel", the brandname of Tongda's digital satellite television modem, has enhanced its popularity in the market and harvested a great demand. The orders in hand are impressive and further growth in sales are expected in the coming years. The sales of "digital satellite television modems" occupies about 70% sales of this Division and becomes the most significant products in this Division.

Fiber optic cable

Fiber optic cable market in China is still in its sluggish stage and the market practice for the business is attached with long credit period. The Group tried to purchase most of its raw materials in the domestic markets, thus decreasing costs by 20% to 30% than purchasing abroad and enjoying an export advantage. The Group has adopted prudence policy to this business by stopping further investments and are highly selective on sales orders and customers. Consequently, turnover in this sector has dropped by 26% in comparing with last year. The management is of an opinion that the recovery of the business will heavily rely on turnaround of market situation. As such, we will channel our resources to other profitable businesses for the moment.

d. Trading of Electrical Appliances

Trading of China made electrical appliances to the Australian market occupies about 5.4% of the Group's turnover. Although the profit contribution is fair in this sector, it has created a good trading relationship with the vendors who are the Group's major customers.

Management's Discussion and Analysis

BUSINESS REVIEW *(continued)*

2. Operational *(continued)*

Segmental information (continued)

e. Jointly-controlled Entity

In order to maintain the market competitiveness, the Group has formed a jointly-controlled entity with Amoi Electronics Company Limited ("Amoi"), a company listed in Shanghai Stock Exchange in China. The jointly-controlled entity is mainly to manufacture handset casing. This strategic partnership hopes to add a horizontal integration to our existing business and to expand the handset style market and widening the categories of the accessories of communications products for the Group. The joint venture company has recorded a few million profit for its first few months operation during the year and is highly optimistic about the future.

LIQUIDITY AND FINANCIAL RESOURCES

Our Group generally financed its development and operations with internally generated cash flow and other banking facilities by its principal bankers.

During the year, on 11 April 2005, our Group was supported by a Group of Banks to grant a 3 years' long term loan amounting to HK\$125 million at an annual interest rate of HIBOR plus 1.25%. The loan is to repay the short term loan and to add as additional working capital. We aim at maintaining a high level of liquidity for our further expansion in the coming days.

Our Group has experienced rapid growth during the year. With the support of the profitability of the business and the careful monitoring of the liquidity position of the Group, the liquidity of the Group is maintained at a healthy level.

As at 31 December 2005, we had cash and bank balances of HK\$112,440,000 (2004: HK\$87,741,000), of which more than 90 per cent were denominated in Hong Kong dollars and RMB. Our Group carried 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 2005, the gearing ratio (total debt/total asset of the Group) was 0.52 (2004: 0.55).

EMPLOYEE

As at 31 December 2005, the Group had about 7,000 (2004: 4,600) employees. The Group provides competitive remuneration packages to employee commensurable 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.

Management's Discussion and Analysis

CAPITAL STRUCTURE

All of the Company's shares are ordinary shares. Other than the non-current portion of bank loans of HK\$93.7 million (2004: HK\$5.9 million), the Group's borrowings are repayable within one year as at the balance sheet date.

CHARGE ON ASSETS

During the year, repayment of loan to the bankers has been made and all of the legal charge on the Company's properties in Hong Kong has been released by the bankers.

CONTINGENT LIABILITIES

As at the balance sheet date, the Group had contingent liabilities in respect of outstanding irrevocable letters of credit of HK\$44.0 million (2004: HK\$23.4 million).

In addition, 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\$68.1 million (2004: HK\$50.8 million) at the balance sheet date.

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