

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Group achieved a net profit attributable to shareholders of HK\$10.9 million for the year, compared with a net loss of HK\$192.9 million for 2002.

The Group's turnaround performance is partly attributable to the favourable results of Omnitech Holdings Limited ("OHL"), a 51.6% subsidiary whose shares are listed on the Australia Stock Exchange. OHL reported a net consolidated profit attributable to shareholders of A\$1.6 million (HK\$8.0 million) for the year, a significant improvement from the loss of A\$4.8 million (HK\$15.0 million) for the previous period.

Turnover for the Group for the year amounted to HK\$248.4 million (2002: HK\$136.4 million), representing an increase of approximately 82%. The increase was mainly due to the Group's new trading division.

Gross margin, however, dropped from 18% to 11.5%, mainly due to the consolidation of the smart card business which normally commands substantially higher margins than the electronics manufacturing and trading business. The consolidation of the smart card business has largely been completed. The division has now achieved profitable operating results, and is poised for further expansion. This should help to improve the gross margin of the Group's business activities.

Lik Hang Holdings Limited ("Lik Hang"), the electronic components division wholly-owned by OHL, had a satisfactory year and reported a net profit before finance costs and taxation of HK\$7.4 million (2002: HK\$6.9 million). The core business of Lik Hang continued to be the manufacturing of intermediate-frequency transformers, coils and antenna bars for cordless phones and audio equipment. Lik Hang has expanded its manufacturing facilities and is diversifying its product portfolio by expanding into composite components, mainly for AM/FM tuner modules.

VFJ Technology Holdings Limited ("VFJ"), the contactless smart card technology division 69% owned by OHL has achieved a net profit before finance costs and taxation of HK\$0.038 million versus a loss of HK\$17.5 million for the previous year. VFJ has substantially cut back its operations overseas and concentrates on business opportunities in China. The Beijing Metro Line 13 Project was successfully launched in late December 2003. This is expected to be the cornerstone to spread and popularize the use of contactless smart cards in Beijing. This also represents another milestone achievement for VFJ in China, coming after the installation of the first AFC system in China for Shanghai Metro in March 1999. Given its impressive track record in China, VFJ is well positioned to capture more business opportunities, particularly in Beijing and Shanghai prior to the 2008 Olympic Games and the 2010 World Expo.

MANAGEMENT DISCUSSION AND ANALYSIS ————— CONTINUED

The Group's new trading division, under Unicom Group Limited ("UGL") and Sino Trade Enterprises Limited ("Sino Trade"), recorded a turnover of HK\$117.7 million and an operating profit of HK\$2.7 million. Together with Lik Hang and VFJ, UGL and Sino Trade are expected to further expand the Group's core electronics business and exploit new product lines.

Having gone through a phase of consolidation, the Group's investment activities on the whole have started to produce favourable results.

An important factor in the Group's improved performance was the successful implementation of stringent cost controls including 30% pay cuts for executive directors and senior executives introduced from the beginning of 2003. Administrative expenses have decreased from HK\$57.6 million in 2002 to HK\$30.4 million in 2003, a reduction of 47%.

Shareholders' funds as at 31 December 2003 amounted to HK\$169.2 million or HK\$2.28 per share.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's current assets and current liabilities as at 31 December 2003 were HK\$127 million and HK\$63 million, respectively (2002: HK\$111 million and HK\$68 million, respectively).

As at 31 December 2003, the Group had cash and bank deposits of approximately HK\$31 million (2002: HK\$32 million). The Group's bank borrowings and other loans were approximately HK\$39 million (2002: HK\$33 million). Such banking facilities were secured by charges over fixed deposits and guarantee funds of certain subsidiaries, and against guarantees issued by certain subsidiaries and a director of these subsidiaries. The Group was not exposed to any substantial risk in foreign exchange fluctuations.

To provide additional working capital and financial resources for business expansion and acquisitions, the Company issued new shares for cash during the year under review:

- (a) On 1 April 2003, the Company raised HK\$13 million by issuing 10,000,000 new shares at HK\$1.3 per share; and
- (b) On 11 December 2003, the Company raised HK\$15 million by issuing 11,000,000 new shares at HK\$1.38 per share.

CHARGES ON ASSETS

As at 31 December 2003, time deposits and guarantee funds of the Group in the amount of HK\$16.3 million (2002: HK\$15.8 million) have been pledged to banks as security for banking facilities provided to certain subsidiaries.

PROSPECTS

The Board is pleased that the Group has returned to profitability after several years of losses. The current management has continued to rebuild the Group's core business activities, and aims to transform the Group back into a significant player in the trading and manufacturing of electronics, high-tech, and other products in the China domestic and export markets.

Strict financial discipline and cost control will continue to be imposed on all units of the Group, and incentive schemes are being implemented to motivate all management and staff to achieve the business expansion and profits targets of Group.

The Group is financially healthy with a gearing ratio which was calculated on the basis of bank borrowings to shareholders' funds of 23% as at 31 December 2003 (2002: 25%). Financial prudence will continue to form the cornerstone of the Group's overall strategy.

The Group is excited by the business opportunities in China, and given the satisfactory performance of 2003, the Group is poised for further expansion in 2004 through internal growth and, if the opportunities arise, acquisitions.

EMPLOYEES

As at 31 December 2003, the Group employed approximately 1,230 employees, out of which approximately 1,200 were production workers. In addition to the provision of annual bonuses, medical insurance and in-house and external training programs, discretionary bonuses and share options are also available to employees based on their performance. The remuneration policy and packages of the Group are reviewed from time to time.