

## RESULT ANALYSIS

As a result of the change of financial year end, this financial result for the Group comprised the eighteen months period from 1 July 2003 to 31 December 2004. During this reporting period, the Group recorded a total turnover of approximately HK\$559,882,000 (2003: HK\$140,193,000), representing an increase of 399% as compared to the previous year ended 30 June 2003. The net profit attributable to shareholders during this period had made a remarkable achievement to approximately HK\$48,430,000 (2003: loss of HK\$5,811,000). Earnings per share for the period was HK21.19 cents (2003: loss per share of HK3.87 cents). The result clearly reflects the group's successful implementation of its business diversification and expansion programme during the period into the high-ends electronic and electrical parts and components sectors.

### Electronic and Electrical Components Business

After the change of control of the Board at the end of 2003, the Group has acquired Key Legend Limited in March 2004, which is principally engaged in the manufacturing of high-ends electronic components that are widely used in sophisticated home appliances, telecommunication products, computer and consumable electronic handheld devices. The name of the Company has also been changed to Semtech International Holdings Limited in April 2004 to reflect the future business focus. The turnover for this new sector of business during this reporting period accounted for approximately HK\$308,445,000 with a segment profit of approximately HK\$61,483,000 before unallocated expenses and taxation.

### Lighters and Lighter Related Accessories Business

The lighter and the lighter related accessories business contributed approximately 44.9% of the Group's turnover for the period to approximately HK\$251,437,000 (2003: HK\$140,193,000) with a segment profit of approximately HK\$1,548,000 (2003: loss of HK\$1,554,000) before unallocated expenses and taxation. The improvement in the result of this segment was mainly attributable to the tightened control in administration cost during the period.

## FINANCIAL REVIEW

### Liquidity, Financial Resources and Capital Structure

The Group continued to maintain a healthy financial position. During this period, the Group had repaid all utilized banking facilities. At 31 December 2004, the Group had no bank loan and no overdrafts (2003: HK\$8,397,000) but only has finance lease obligation of approximately HK\$96,000 (2003: HK\$1,677,000). The gearing ratio (defined as total interest bearing borrowing divided by shareholder's fund) was greatly improved to 0.04% (2003: 13.9%).

The Group generally finances its operations with internally generated cash flows and fund from the two fund raising exercises by way of “top-up” placing on 12 January 2004 and 12 May 2004. During the period, the Group had settled all utilized banking facilities from the banks. The Directors believe that the Group has sufficient financial resources to satisfy its operations and capital expenditures requirement.

## Material Acquisition

A sale and purchase agreement and a supplementary agreement dated 11 March 2004 and 12 March 2004 has been entered into between the Company as purchaser and an independent third party Mr. Wan Bing Hung as vendor in respect of the sale and purchase of the entire issued capital of Key Legend Limited, a company incorporated in the British Virgin Island with limited liability, upon the terms and conditions therein contained. Further details of the acquisition are set out in the Company’s circular dated 26 March 2004.

## Charges on Group’s Assets

During the period, the Group had repaid all utilized banking facilities in order to release the charges on its time deposit, investment properties and leasehold land and building and all corporate or personal guarantees held by the banks.

## Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in Hong Kong dollars and US dollars. Foreign exchange exposure of the Group is minimal so long as the Hong Kong SAR Government’s policy to peg the Hong Kong dollars to the US dollars remains in effect.

Since the Group’s principal manufacturing operations are in the PRC and most of the operating expenses are denominated in Renminbi, the management is aware of possible exchange rate exposure.

## Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date.

## Employee and Remuneration Policies

As at 31 December 2004, the Group had 2,587 (2003:1,773) employees spreading from Hong Kong to the PRC and industrial relationship had been well maintained. Employees are remunerated by reference to qualifications, experience, responsibility and performance.

## Other Matters

The trading of the shares of the Company has been temporary suspended since 12 July 2004 at the request of the Company till 9 September 2004 due to the public speculation arising out of an ICAC press release and/or press reports (the "Matters"), details of which refer to Company's announcement dated 8 September 2004. The Board considers that the Matters do not have any materially adverse impact on the day-to-day operations or the financial position or the cashflow position of the Group.

## PROSPECTS

The established direction of the Group include (i) manufacturing and trading of high-ends electronics and electrical parts and components; and (ii) engaging in the design, manufacture and trading of a wide range of cigarette lighters and lighter-related accessories. On top of the above, the Group is also seeking investments in broader range of sectors in order to further reduce its reliance on the low profit margin lighter industry. The strong worldwide consumer demand in the personal computer, digital television and mobile phone markets, together with the fast growing economy in China, justified the Group's decision to allocate more resources in the research and development in the expansion in the high-ends electronic components business. It is expected that the current net margin of 15% for this segment will further be enhanced with the launched of the SMD SOD-series products. Looking ahead, the Group will continue to explore alliance opportunities with more multi-national entities to accelerate our market expansion as well as to capture the potential market growth.