

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

During the year ended 31 December 2005, the turnover of the Group has increased by 8.4% to HK\$317 million, as compared to HK\$292 million for the year 2004. The table below shows the turnover analysis by electronic products and electronic product components for the two years ended 31 December 2005 and 2004 respectively:

	Year ended 31 December	
	2005 HK\$'000	2004 HK\$'000
Sales of electronic products	267,880	249,136
Sales of electronic product components	49,023	43,311
	316,903	292,447

The turnover for electronic products has increased by approximately HK\$19 million from HK\$249 million to HK\$268 million whereas the turnover for electronic product components has increased by approximately HK\$6 million from HK\$43 million to HK\$49 million. The increase for both products was mainly due to the continued strong growth in demand for the Group's products from customers.

During the year ended 31 December 2005, the sales for carbon monoxide detectors and audio equipment have increased significantly by more than 310% and 86% to HK\$21 million and HK\$21 million respectively. The demand for these two products is expected to remain strong in the year ahead with at least double digit growth rate. On the other hand, the sales of the Group's major product, irrigation controllers, had slowed down during the year 2005. The total sales for irrigation controllers accounted for only 40% of the total turnover of the Group for the year 2005, reduced from 51% of the total turnover of the Group for the year 2004. However, certain new models of irrigation controllers will be launched in the market in 2006 and the Group expects the sales of irrigation controllers will regain its growth momentum in the coming year.

The increase in turnover for the Group's electronic product components was mainly due to the expansion in the customer base as well as the increase in business volume with individual customers. The demand for the Group's component products such as electronic ballasts, transformers, inductors and coils continued to be strong. In order to cope with the increasing demand, the factory for the manufacture of component products has been relocated to new factory premises in November 2005. The new premises comprise a four storey factory complex with a total gross floor area of approximately 13,200 sq. m., which is more than double the size of the old factory.

Gross profit

Despite the growth in turnover, the gross profit margin has been decreased by approximately 5% during the year 2005. As a result of the global energy crisis, the unit prices of certain plastic and metal components have been increased constantly during the year, particular in the second half of the year 2005. The large fluctuation in the unit prices of raw materials has adversely affected the results of the Group and led to a drop in gross profit margin. In addition, in accordance with the requirements of the labour laws in PRC, the average wages level of the workers in the PRC factories has been increased in July 2005 and this has resulted in an increase in the overall labour costs during the year. The relocation of the electronic product components manufacturing process to a larger factory and the leasing of additional factory premises for the manufacture of electronic products had also increased the overall rental expenses of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Gross profit (Continued)

In order to overcome the increase in material, labour and overhead costs, the Group had exercised tighter controls over production costs and overhead. Furthermore, the Group has negotiated with most of its customers to raise the unit selling prices of its products so as to mitigate the effect on rising raw material prices and overhead costs.

The change in product mix during the year has also resulted in a lower average gross profit margin for the year 2005.

Beginning the year 2006, the unit prices for most of the raw materials have remained fairly stable and the Group expects that the fluctuation in unit prices of raw materials would not be as severe as that in 2005. The Group has confidence that the performance for the year 2006 can be improved and the gross margin will be raised.

Operating Expenses

During the year ended 31 December 2005, distribution costs have decreased slightly by 5% because there was less shipment by air during the year. Finance costs have increased by 29% mainly due to the increase in utilisation of banking facilities granted by banks and the general increases in interest rates during the year. Total bank borrowings as at 31 December 2005 was HK\$58 million as compared to HK\$27 million as at 31 December 2004.

Administrative expenses for the year 2005 have increased by 8% mainly due to a number of reasons, including the donation of HK\$1 million to The Community Chest upon successful listing of the Company's shares on the Stock Exchange in July 2005; additional listing fees, professional fees and compliance fees incurred to maintain the status as a listed company; and the increase in staff salaries and allowances as a result of the annual salary increment in January 2005.

Net Profit

The net profit margin for the year has dropped from 13.2% for the year 2004 to 8.5% for the year 2005. The reduction in net profit margin was mainly due to the decrease in average gross profit margin and increase in administrative expenses as explained above.

PRODUCTION FACILITIES

The production capacity of the main factory for the manufacture of electronic products was more than 90% utilised during the year 2005. This has limited the Group's capacity for further expansion. In view of this, the Group has leased additional factory premises for the manufacture of electronic products during the year. The new factory premises, being a four storey factory complex, are located adjacent to the existing factory and have a total gross floor area of approximately 9,400 sq. m. The new factory premises have commenced its operations since December 2005, and currently are mainly used to cope with the expansion in manufacture of carbon monoxide detectors and audio equipment.

Besides, the factory for the production of electronic product components has also been relocated to new premises with enlarged production capacity and a total gross floor area of approximately 13,200 sq. m.. The new factory has commenced operation in November 2005. These expanded production capacity will provide a strong base for the Group's expansion in future.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The Company issued 90,000,000 shares at HK\$0.8 per share by way of placing and public offer in July 2005. The net proceeds after deducting the relevant expenses were approximately HK\$60 million.

During the year 2005, the Group utilised the above proceeds in accordance with that disclosed in the Prospectus, namely HK\$11.9 million for enhancing the Group's production capacity and HK\$0.7 million for upgrading the information systems.

The balances of the proceeds were placed in banks as short-term deposits as at 31 December 2005.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group remained to be strong and healthy. As at 31 December 2005, the total bank balances and cash amounted to HK\$96 million (2004: HK\$38 million), of which 85% was held in Hong Kong dollars, 10% was held in United States dollars and the remaining balance was held in Renminbi and other currencies. The bank balances are used to finance the Group's working capital and capital expenditure plans.

As at 31 December 2005, the total bank borrowings of the Group amounted to HK\$58 million (2004: HK\$27 million), comprising bank overdrafts of HK\$37 million and bank loans of HK\$21 million, all denominated in Hong Kong dollars. The average effective interest rates for these borrowings for the year 2005 was approximately 6.2%.

The Group's accounts receivable turnover, inventory turnover and accounts payable turnover were 58 days, 85 days and 72 days respectively for the year 2005. The turnover periods are consistent with the respective policies of the Group on credit terms granted to customers and credit terms obtained from suppliers.

As at 31 December 2005, the Company has issued a total of 300,000,000 ordinary shares of HK\$0.01 each.

CASH FLOWS

Total balance of cash and cash equivalents as at 31 December 2005 was HK\$54 million, which has increased by HK\$51 million as compared to 31 December 2004. The increase was mainly due to the cash inflows from operating activities and the proceeds from initial public offering, less the amount utilised for purchase of fixed assets and acquisition of a further 26% equity interest in an associated company.

Due to continued strong sales growth in 2005, there was a net cash inflow from operating activities of HK\$8 million. The net cash outflow from investing activities in 2005 amounting to HK\$21 million, which was mainly due to the acquisition of fixed assets and the consideration paid for the acquisition of additional equity interest in an associated company.

The net cash inflow from financing activities in 2005 was mainly due to the net proceeds from initial public offering of HK\$63 million and new bank loans obtained of HK\$13 million. During the year, total dividends paid amounted to HK\$20.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PLEDGE OF ASSETS

As at 31 December 2005, the Group had total bank borrowings of HK\$58 million which were secured by short-term bank deposits of HK\$5 million and available-for-sale financial assets of HK\$3 million.

GEARING RATIO

As at 31 December 2005, the total borrowings (excluding trade related debts) were HK\$62 million and the shareholders' equity was HK\$132 million. The gearing ratio of the Group, calculated as total borrowings over shareholders' equity, was 47%.

ACQUISITION OF SUBSIDIARY

In December 2005, the Group has increased its equity interest in an associated company, Southchina Engineering and Manufacturing Limited ("Southchina"), from 25% to a total of 51%. Southchina is engaged in the manufacture of plastic moulds, plastic components and electronic accessories. The management considered that the acquisition of Southchina as a subsidiary can generate a synergy effect for the Group's future expansion.

The Group will continue to look for other investment opportunities actively in the electronics industry, either in Hong Kong or overseas, so as to expand its operation horizontally and vertically.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 31 December 2005, the Group had 2,022 employees, of which 75 of them are in Hong Kong and 1,947 of them are in the PRC. Salaries of employees are maintained at competitive levels. The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulation in the PRC. The Group also offers discretionary bonuses to its employees by reference to the performance of individual employees and the performance of the Group. Total staff costs, excluding directors' emoluments, incurred by the Group for 2005 amounted to HK\$43 million.

The Company has also adopted a share option scheme on 22 June 2005. Details of the principal terms and conditions of the scheme are set out in the Report of the Directors on page 22.

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of its normal business operations. The Board believes that the Group's employees are among the most valuable asset of the Group and have contributed to the success of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FOREIGN EXCHANGE EXPOSURE

Most of the Group's sales are denominated in United States dollars and Hong Kong dollars and most of the purchases of raw materials are denominated in United States dollars, Hong Kong dollars and Renminbi. Furthermore, as most of the Group's monetary assets are denominated in Hong Kong dollars, United States dollars and Renminbi, the exchange rate risk of the Group is considered to be minimal. The Board considered that the new exchange rate control mechanism for Renminbi adopted in July 2005 does not have any significant impact to the Group.

In view of the current financial position and operations of the Group, the management of the Group considered that it was not necessary for the Group to have any kind of financial instrument for hedging purposes or to adopt any hedging policy.

OUTLOOK

The Group's primary objective is to become a leading and internationally well known manufacturer and "total solution provider" of electronic products and electronic product components. After the Listing on 15 July 2005, the Group has been focusing on developing new designs to meet customers' needs and continuously expanding its service to international customers.

Looking ahead, the Company has strong confidence in the future. The Company is very clear about its responsibility towards its shareholders and their expectation. The Listing provides a platform for the Group to become a stronger leader in the global electronics industry. Although there are challenges ahead in terms of competition and fluctuation in raw material costs, the Group is confident that it will overcome these challenges because it has a well distributed worldwide customer base, consistently high quality products and timely delivery, strong engineering and development support to its customers, an experienced and dedicated management team and its highly skilled and efficient workforce.

DIVIDENDS

In appreciation of the support from our shareholders, the Board proposed the payment of a final dividend of HK1.5 cents per share. Together with the interim dividend of HK2 cents per share and the special interim dividend of HK1.5 cents per share paid in October 2005, the total dividends paid for the year 2005 will be HK5.0 cents per share, represents a dividend payout of 55.7% on the net profit of the year 2005. All dividends are paid out from funds generated from the Group's operations.

The proposed final dividend of HK1.5 cents per share will be payable to shareholders whose name appear on the register of members of the Company on Wednesday, 24 May 2006. The Register of Members will be closed from Friday, 19 May 2006 to Wednesday, 24 May 2006, both days inclusive, and the proposed final dividend will be paid on or about Wednesday, 7 June 2006. The payment of dividend shall be subject to the approval of the shareholders at the forthcoming Annual General Meeting.