

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover and operating profit reported growth for three consecutive years. For the year ended 31 December 2005, the Group's turnover was approximately HK\$208.6 million, which represented an increase of approximately 13% as compared to HK\$184.5 million of last year. The Group reported a profit attributable to shareholders and profit per share of approximately HK\$60.8 million and HK19 cents respectively as compared to a corresponding profit of HK\$40.5 million and HK12.64 cents respectively of last year. Gross profit margin rose to approximately 51% in 2005 as compared to 44% in 2004. The significant improvement in operating performance was largely due to the growth in turnover, increase in operational efficiency and higher productivity, and the results of cost reduction efforts.

The increase in turnover was mainly due to higher demand in its military, aerospace and high reliability markets, especially in the military and aerospace market which generated a higher profit margin. Sales to the military and aerospace market alone increased by over HK\$35.4 million (from HK\$39 million in 2004 to HK\$74.4 million in 2005), thus bringing a significant contribution to the improvement in the Group's gross profit margins and operating profits.

In 2005, the overall business environment of electronics industry has continued to improve with the strong growth of the world economy, spurred by the growth in the US economy. The US and Europe markets remained the Group's major markets which accounted for over 90% of the Group's turnover.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2005, the Group had a total shareholders' equity of approximately HK\$250.6 million (2004 (restated): HK\$205.3 million), and cash and cash equivalents of approximately HK\$111 million (2004: HK\$84 million), which were predominately denominated in US and Hong Kong dollars.

For the year ended 31 December 2005, the Group had not arranged for any banking facilities and other resources for financing. With the above cash on hand, the Group has adequate resources to meet its working capital needs in the near future.

The Group has strong financial position. There were no debt and no bank loan for the year ended 31 December 2005.

The Group had limited exposure to foreign exchange fluctuations as most of its accounts receipts and payments are in US dollars.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2005, the Group employed approximately 1,530 personnel around the world, with approximately 100 in Hong Kong, 1,410 in the PRC and 20 overseas. The Group has a staff education sponsorship program and also provides training courses to staff on operational system, product and technology development, and product safety.

The remuneration policy for the Group's employees is reviewed by management on a regular basis. Competitive remuneration packages will be offered to employees based on business performance, market practices and the performance of individual employees. The Group has adopted a provident fund scheme for its employees.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2005 (2004: HK\$Nil).

CAPITAL COMMITMENTS

The Group did not have any material capital commitment as at 31 December 2005 (2004: HK\$Nil).

PROSPECTS

Looking ahead, the prospects for global electronics business are cautiously optimistic and the Group will continue to build on its competitive advantage to sustain growth in the coming years.