

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and gross profit margin

Benefited from the strong demand for notebook computers, the Group's turnover for the year was approximately HK\$2,672 million, representing an increase of 71% over that of 2004. While the Group maintained a substantial growth in revenue, its gross profit margin for the year decreased to 17% from 26% in 2004 because of high material costs pushed up by surging crude oil prices and the start up costs incurred by the new mould production plant and the new production plant in Shanghai.

Operating expenses

The Group's operating costs and other operating expenses, including administrative expenses, selling and distribution costs and other expenses for the year were approximately HK\$219 million, representing an increase of 48% as compared with that of 2004. Administrative expenses increased from approximately HK\$122 million in 2004 to approximately HK\$192 million in 2005 attributable mainly to the business expansion and recruitment of project managers to oversee the development of new products.

Financial costs

Interests of bank borrowings increased significantly by 377% to approximately HK\$60 million in 2005 as compared with that of 2004. This was mainly due to the increase in bank borrowings and the increase in the average bank borrowing rate during the year.

Net profit

The Group's net profit declined to approximately HK\$192 million in 2005 from approximately HK\$241 million in 2004. The decrease in profitability was mainly the result of decrease in gross profit margin and the high interest costs.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow as well as banking facilities provided by its principal bankers. As at 31 December 2005, mainly attributable to the receipt of the proceeds from the issue of the Company's new shares in November 2005 ("IPO Proceeds"), the Group's cash and bank balances amounted to approximately HK\$227 million, representing an increase of 56% as compared with that of 2004.

As at 31 December 2005, the Group had a total bank borrowings of approximately HK\$869 million, representing a slight decline of 8% from that of 2004. Except for an amount of approximately HK\$343 million (2004: HK\$770 million) which is matured within one year, all the bank borrowings will be repayable after one year. The Group's bank loans with carrying amounts of approximately HK\$829 million (2004: HK\$898 million), approximately HK\$37 million (2004: HK\$45 million), and approximately HK\$3 million (2004: HK\$3 million) were denominated in U.S. dollars ("USD"), Renminbi ("RMB") and New Taiwan dollars respectively.

During the year, the Group entered into trade receivables factoring facilities on a without recourse basis which improved significantly the Group's cash flow from operating activities to a net cash inflow position of approximately HK\$177 million (2004: net cash outflow of HK\$306 million). The Group's net increase in cash and cash equivalents of approximately HK\$78 million (2004: HK\$31 million) was primarily attributable to the cash flows from operating activities and the IPO Proceeds, which were offset by the purchases of fixed assets and repayment of bank borrowings.

The gearing ratio of the Group, calculated as total bank borrowings of approximately HK\$869 million (2004: HK\$946 million) over total assets of approximately HK\$3,604 million (2004: HK\$2,339 million), was 24%, representing a substantial improvement from 40% in 2004. The improvement was attributable to the receipt of the IPO Proceeds and the entering of trade receivables factoring facilities on a without recourse basis.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 31 December 2005, the Group pledged land and buildings and machinery with an aggregate carrying value of approximately HK\$751 million (2004: HK\$399 million), trade receivables of approximately HK\$439 million (2004: HK\$604 million) and bank balances of approximately HK\$18 million (2004: HK\$38 million) as securities for banking facilities.

EMPLOYEES

As at 31 December 2005, the Group had approximately 22,000 employees and staff costs amounted to approximately HK\$397 million (2004: HK\$248 million). 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 regulations of the PRC. The Group offers discretionary bonuses to its employees based on their individual performance and the performance of the Group.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to fluctuation in foreign exchange rates. Since most of the Group's revenue is denominated in USD and most of the Group's expenses are denominated in RMB, appreciation of the RMB will adversely affect the Group's profitability. Accordingly, the Group has entered into forward foreign exchange contracts to mitigate possible exchange losses relating to fluctuations in the values of the USD and RMB.

USE OF IPO PROCEEDS

The Company was listed on 3 November 2005 ("Listing Date") on the Main Board of The Stock Exchange of Hong Kong Limited, which involved an international placing and public offering of 260 million new shares ("Share Offer") at HK\$1.4 per share. The net proceeds from the Share Offer after deducting relevant expenses were approximately HK\$322 million. Since the Listing Date, the Group had utilised part of the IPO Proceeds in accordance with the plan disclosed in the Company's prospectus dated 25 October 2005 ("Prospectus"), as to approximately HK\$47 million for the acquisition of new machinery, approximately HK\$71 million for acquisition of interests in companies engaged in mould manufacturing and production materials supplies, and approximately HK\$77 million for the repayment of the outstanding bank borrowings. The balance of the IPO Proceeds was placed with licensed banks in Hong Kong as deposits and will be applied in the future for their intended uses as set out in the Prospectus and as general working capital of the Group.

CAPITAL COMMITMENT

As at 31 December 2005, the capital commitment for which the Group had contracted but not provided for in the financial statements in respect of the acquisition of land and building and machinery amounted to approximately HK\$10 million (2004: HK\$138 million).

CONTINGENT LIABILITIES

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