

President's Statement & Performance Review

RESULT OVERVIEW

The Group has maintained a steady performance during the financial year 2005 with a turnover of approximately HK\$554.0 million (18 months period in 2004: HK\$559.9 million) and a net profit attributable to shareholders at approximately HK\$42.7 million (18 months period in 2004: HK\$48.6 million).

DIVIDEND

The Board recommended the payment of a final dividend of HK\$0.03 per share for the year ended 31 December 2005, subject to the approval by shareholders at the forthcoming Annual General Meeting. This proposed final dividend together with the interim dividend will make a total of HK\$0.04 per share for the financial year 2005.

BUSINESS REVIEW

During the financial year 2005, the electronic components business continued to deliver an essential source of income for the Group, turnover for this segment amounted to HK\$395.4 million (18 months period in 2004: HK\$308.4 million) with a segment result of HK\$55.6 million (18 months period in 2004: HK\$61.5 million). At the same time, the Group has continued to streamline the operation in the lighter business, turnover for the year was HK\$158.6 million (18 months period in 2004: HK\$251.4 million) and the segment result was a loss HK\$0.3 million (18 months period in 2004: a profit of HK\$1.7 million).

As per last year's expectation, the SMD SOD-series component products have been launched to the market during the financial year 2005. In order to enhance further the production standard, the electronic business segment has successfully obtained ISO/TS 16949:2002 certification, a stringent and prerequisite requirement for customers in the automotive industry. Semtech "ST" brand products are becoming well-known in the market and providing confidence to the customers, a lot of imitative products have emerged, in order to distinguish our products from the counterfeit products, the Group has taken an active role by fine tuning the design of our products, and registering its trademark in HK and PRC.

Material costs was slightly increased during the year when compared with 2004 due to the rise in copper and gold price. The appreciation in Renminbi in July 2005 for about 2% has also moderately affected the manufacturing cost of the Group. As mentioned above, the redesign of certain products in order to distinguish us from the counterfeit added an extra outflow of cost during the year.

Lighter business segment was affected seriously by the inflated oil price and the result was a significant increase in material cost. Severe competition in the industry has made the situation worse, low entry barrier has given rise to a number of competitors in the market, especially in the PRC which in turn affected the turnover during the year. All these hit the margin of this segment and caution is needed to monitor its performance.

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FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group continued to maintain a healthy financial position. After repaying all the utilized banking facilities during 2004, the Group does not have any outstanding bank loan nor overdraft as at 31 December 2005 (2004: Nil). The only borrowing refers to finance leases obligations of approximately HK\$135,000 (2004: HK\$96,000). The gearing ratio (defined as total interest bearing borrowing divided by shareholders' fund) was 0.05% (2004: 0.05%).

The Group's cash and bank balances amounted to HK\$48 million (2004: HK\$39.3 million) and its current ratio at year end increased from 1.96 to 2.43. The Group generally finances its operations with internally generated cash flows. At the present moment, the Directors believe that the Group has sufficient financial resources to satisfy its current operations and capital expenditures requirement.

Charges on Group's Assets

The Group did not have any asset pledged during the financial year and at the balance sheet date (2004: HK\$0.5 million).

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in Hong Kong dollars, US dollars and Renminbi. The management is aware of possible exchange rate exposure due to the appreciation of Renminbi in July 2005. However, the Group's cash outlay on purchase of raw materials are mainly denominated in Hong Kong dollars and US dollars, foreign exchange exposure to the Group would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the US dollars remains in effect and the use of financial instruments for hedging purposes is considered not necessary at the present moment.

Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date (2004: Nil).

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FUTURE OUTLOOK

"Worldwide sales of semiconductors in 2005 increased 6.8 percent from that reported in 2004 and 2005 turned out to be a very good year for the semiconductor industry." As stated by the President of the Semiconductor Industry Association ("SIA") in the press release on 2/2/2006 worldwide demand for semiconductors increased in all end users markets, consumer electronics products were the principal driver of the increased demand. SIA forecasts that worldwide sales of semiconductors will grow by 7.9 percent in 2006. Semiconductors sales data also reflected the continuing shift of electronics manufacturing operations to the Asia-Pacific region in general and to China in particular which accounted for the largest share of the market and has become the world's leading manufacturer of electronics products. We are optimistic that the Group, being one of the major participants in the electronic components market in the region, will benefit from this overall healthy economic climate in the coming years.

The Group will continuously focus on its electronic components business in the coming year. At the end of the financial year, the Group has started to study the possibility of the radio frequency identification technology (the "RFID") in different applications after recognizing that RFID in the logistics and inventory control will become an inevitable trend in the near future. Since the technique in producing RFID tags is quite similar to the technique used in producing our existing products, a preliminary research has been initiated to explore the opportunity for the Group even though there is no clearly defined plan as to the development, production scale and capital expenditure requirement for producing RFID tags by the Group at the present moment.

ACKNOWLEDGEMENTS

On behalf of the Board, I wish to sincerely thank my fellow directors, dedicated employees, supportive shareholders and our customers and suppliers for their continued support to the Group in the past year, the delightful performance and achievement could not been accomplished without their wholehearted devotion and commitment.

Lam Yat Keung

President

Hong Kong

10 April 2006