

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover increased by 24% to HK\$1,631 million from HK\$1,313 million in 2004. Operating profit before interest and tax reached HK\$121 million, representing an increase of 30% over last year of HK\$93 million. Profits attributable to shareholders amounted to HK\$93 million, as compared to HK\$89 million in 2004. Basic earnings per share were 13.3 Hong Kong cents, as compared to 13.9 Hong Kong cents in 2004.

The Group's shipment volume increased by 15% and average sales prices increased by 7%. Material costs increased by high single digit in the second half of 2005 as a result of higher oil prices, surge in metal prices and the appreciation of RMB. The decrease of production overheads by 2% per square feet was mainly attributed to the improvement in production efficiencies and the implementation of a stringent cost reduction program. Overall gross profit margin decreased slightly from 19.8% in last year to 19.3% in this year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group finances operations through a combination of internally generated cash flows, shareholders' equity and borrowings from banks.

As at 31 December 2005, the Group had total assets of HK\$2,282 million (31 December 2004: HK\$1,763 million) and interest-bearing borrowings of HK\$786 million (31 December 2004: HK\$510 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of 34% (31 December 2004: 29%).

The Group's net current asset of HK\$39 million (31 December 2004: HK\$51 million) consisted of current assets of HK\$922 million (31 December 2004: HK\$716 million) and current liabilities of HK\$883 million (31 December 2004: HK\$665 million), representing a current ratio of 1.04 (31 December 2004: 1.08).

As at 31 December 2005, the Group's current assets consisted of HK\$156 million (31 December 2004: HK\$91 million) held as cash and cash equivalents, of which 28% was in HKD, 27% was in USD, 42% was in RMB and 3% in other currencies.

The Group's current assets also consisted of HK\$438 million (31 December 2004: HK\$396 million) trade receivables from customers. Debtors' turnover days decreased to 93 days (31 December 2004: 100 days) as a result of effective credit control management.

As at 31 December 2005, the Group's inventories increased to HK\$273 million (31 December 2004: HK\$206 million). Inventory turnover days was 66 days (31 December 2004: 59 days). The increase was partly due to the purchase of more raw materials at the end of 2005 for the increasing trend of the rising material prices and partly due to an increase in Just-In-Time requirements from major customers. Trade payables also increased to HK\$416 million from HK\$339 million in 2004 which was in line with the corresponding increase in production volume. Creditor's turnover days was approximately 105 days (31 December 2004: 108 days).

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INTEREST-BEARING BORROWINGS

As at 31 December 2005, the Group had the interest-bearing borrowings as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Amounts payable:		
Within one year	363,891	249,403
In the second year	239,816	141,831
In the third to fifth year, inclusive	181,906	118,616
	785,613	509,850
Less: Portion classified as current liabilities	(363,891)	(249,403)
Long term portion	421,722	260,447

Of the total interest-bearing borrowings, USD denominated loans accounted for 16% (2004: 14%) and the 84% balance were HKD denominated loans (2004: 86%). All interest-bearing borrowings are charged with floating rates. The Group had maintained Hong Kong Dollar unexpired interest rate swap contract of HK\$178 million (2004: HK\$179 million) to hedge the HIBOR based loans.

On 19 December 2005, the Group arranged a syndicated loan facility of HK\$210 million with several financial institutions. The facility was a term loan facility with a tenor of 36 months from 19 December 2005. The facility was mainly used to finance the capital expenditure of our Shaoguan plant, the refinancing of existing short term loans and for other general working capital requirements.

FOREIGN EXCHANGE EXPOSURE

The People's Bank of China announced an appreciation of 2% of RMB on 21 July 2005. Approximately 35% of the Group's purchases and expenses are denominated in RMB. As the Group imported a substantial proportion of its critical raw materials and machineries from overseas which were non-RMB denominated, this would help to mitigate the full effects arising from RMB revaluation. The Group has not entered into any financial instrument for hedging purposes in RMB. With the exception of RMB that the market has rather limited offer of hedging instrument, the Board will continue to monitor foreign exchange exposure in the future and will consider hedging such exposure to minimize exchange risk should the need arise.

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NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2005, excluding the associate, the Group had approximately 7,500 employees. For the financial year ended 31 December 2005, total staff costs amounted to HK\$188 million. Under the Group's remuneration policy, employees are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants including any employees of the Group. In January 2005, a total of 1,860,000 share options were granted to a Non-executive Director of the Company. During the year under review, a total of 800,000 share options were exercised. As at 31 December 2005, the Company had 9,800,000 share options outstanding under the scheme.

Subsequent to the balance sheet date, a total of 1,050,000 share options were exercised. As a result, the Company had 8,750,000 share options outstanding under the scheme, representing 1.23% of the Company's shares in issue as at the date of this report.

The Group follows a policy of encouraging its subsidiaries to send their staff to attend training classes or seminars that are related directly or indirectly to the Group's businesses.

CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements included trade debtors factored with recourse amounted to HK\$Nil (2004: HK\$35 million).

At 31 December 2005, banking facilities of HK\$761 million (2004: HK\$707 million) granted to and finance lease agreements of HK\$200 million (2004: HK\$146 million) entered into by subsidiaries were subject to the guarantees given by the Company were utilised to the extent of approximately HK\$312 million (2004: HK\$288 million) and HK\$163 million (2004: HK\$114 million) respectively.

CAPITAL COMMITMENTS

As at 31 December 2005, the Group's capital commitments contracted but not provided for amounted to HK\$146 million. (2004: HK\$57 million). All of these capital commitments were related to construction of factory building or acquisition of property, plant and equipment.

OTHER COMMITMENTS

At 31 December 2005, the Group's contribution payable for the registered capital of two wholly-foreign-owned subsidiaries incorporated in the PRC totally amounted to HK\$599 million (2004: HK\$133 million). Of which HK\$278 million represented investment in a subsidiary in Tongliao, Inner Mongolia of China to be payable within 18 months up to June 2007 and HK\$321 million represented investment in a subsidiary in Shaoguan, Guangdong Province of China to be payable within five years up to December 2010.

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DIVIDENDS

The Directors do not recommend the payments of a final dividend for the year ended 31 December 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 May 2006 (Tuesday) to 5 June 2006 (Monday) (both days inclusive) in order to establish entitlements of Shareholders to the Bonus Issue of Warrants, during which period no transfer of Shares will be registered. In order to qualify for the 2008 Warrants under the Bonus Issue of Warrants, Shareholders are reminded to ensure that all Share transfers, accompanied by the relevant certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, situate at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 29 May 2006 (Monday).