旺城國際
WANG SING INTERNATIONAL
控股集團有限公司 HOLDINGS GROUP LIMITED

WANG SING INTERNATIONAL HOLDINGS GROUP LIMITED
旺城國際控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2389)

PRELIMINARY ANNOUNCEMENT OF THE FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

Consolidated Income Statement
For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	4	226,544	233,571
Cost of sales		(219,854)	(221,933)
Gross profit		6,690	11,638
Other income		11,790	6,717
Selling and distribution expenses		(15,417)	(17,388)
Administrative expenses		(39,176)	(44,920)
Impairment loss recognised in respect of property, plant and equipment	5	(4,192)	(7,451)
Impairment loss recognised in respect of intangible assets	5	(48,381)	(6,689)
Impairment loss recognised in respect of goodwill included in interest in an associate	11	–	(9,798)
Reversal (recognition) of allowance for amounts receivable from an associate	11	5,063	(39,713)
Gain on disposal of an associate	11	1,367	–
Finance costs	6	(8,237)	(7,329)
Share of loss of an associate		–	(2,563)
Loss before taxation		(90,493)	(117,496)
Taxation	7	1,947	950
Loss for the year	8	(88,546)	(116,546)
Attributable to:			
Equity holders of the Company		(88,546)	(116,546)
Minority interest		–	–
		(88,546)	(116,546)
Loss per share – basic (HK cents)	10	22.2	31.1

Consolidated Balance Sheet
At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		131,401	135,740
Prepaid lease payments		950	680
Intangible assets		2,679	12,407
Interest in an associate	11	–	–
		135,030	148,827
Current assets			
Inventories		19,308	28,970
Trade and other receivables	12	89,404	86,270
Deposits and prepayments		41,094	21,020
Prepaid lease payments		121	21
Bank balances and cash		28,215	17,460
		178,142	153,741
Current liabilities			
Trade and other payables	13	73,894	72,043
Deposits and accrued expenses		4,582	4,857
Bank borrowings		119,997	134,670
Amounts due to directors		–	3,671
Tax payable		–	2,701
		198,473	217,942
Net current liabilities		(20,331)	(64,201)
Total assets less current liabilities		114,699	84,626
Capital and reserves			
Share capital		49,497	37,464
Reserves		35,361	41,662
Total equity		84,858	79,126
Non-current liabilities			
Amount due to a director		19,162	–
Other borrowings		10,679	5,500
		29,841	5,500
		114,699	84,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group has net current liabilities of approximately HK$20,331,000 as at 31 December 2007. The consolidated financial statements have been prepared on a going concern basis because the Directors believe that the Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and shareholder's loan.

Subsequent to the balance sheet date, the Group obtained shareholder's loans amounting to HK$27,500,000 which will be repayable in 2010 and a bank loan facility of HK$7,700,000 which will be repayable in 2009. Furthermore, the Group had received a letter of approval from another bank indicating the bank will grant a bank loan facility of HK$22,000,000. In the opinion of the directors, the shareholder's loan and the available banking facilities will provide adequate funds to enable the Group to meet in full its financial obligations as they fall due.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standards, amendments, and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

4. SEGMENT INFORMATION

Geographical segments

The Group is engaged in the manufacture and distribution of power tools, air tools and hand tools. The nature of the products and the production processes and the methods used to distribute the products to customers in different geographical locations are similar. The Directors consider that geographical segments by location of customers are the primary source of the Group's risk and returns.

Segment information by location of customers is as follows:

	2007 *HK$'000*	**2006** *HK$'000*
Turnover		
Europe		
Germany	3,734	42,821
Other European countries	189,675	152,177
Total	193,409	194,998
Australia	4,814	27,493
North America and other continents	28,321	11,080
Total	226,544	233,571
Segment results		
Europe		
Germany	347	(17,219)
Other European countries	5,812	7,832
Total	6,159	(9,387)
Australia	(621)	(87)
North America and other continents	1,152	282
Total	6,690	(9,192)
Unallocated corporate income	18,220	6,717
Unallocated corporate expenses	(107,166)	(105,129)
Finance costs	(8,237)	(7,329)
Share of loss of an associate	–	(2,563)
Loss before taxation	(90,493)	(117,496)
Taxation	1,947	950
Loss for the year	(88,546)	(116,546)

	2007	2006
	HK$'000	*HK$'000*
Segment assets		
Europe		
Germany	–	9,260
Other European countries	60,999	17,835
Total	60,999	27,095
Australia	–	2,633
North America and other continents	21,296	30,058
Segment assets	82,295	59,786
Unallocated assets	230,877	242,782
	313,172	302,568
Segment liabilities		
Europe		
Germany	–	4,210
Other European countries	11,063	11,980
Total	11,063	16,190
Australia	–	4
North America and other continents	88	529
Segment liabilities	11,151	16,723
Unallocated liabilities	217,163	206,719
	228,314	223,442

Other information:

Allowances for trade receivables of HK$3,247,000 are attributable to the customers located in other European countries. The amount of allowance for the year ended 31 December 2006 of HK$20,830,000 is related to trade receivables due from an associate of the Group and is located in Germany.

No analysis of capital expenditure, depreciation and amortisation and non-cash expenses by location of customers is disclosed for both years as in the opinion of the Directors, there is no appropriate basis in allocating the capital expenditure, depreciation and amortisation and other non-cash expenses by location of customers.

Business segments

As the secondary segment, the Company has been organised into three major business operations: sales of power tools, air tools and hand tools.

Segment information about these businesses is presented below:

	Turnover by business segments	
	2007	**2006**
	HK$'000	*HK$'000*
Sales of power tools	190,031	198,705
Sales of air tools	7,172	5,142
Sales of hand tools	9,910	10,257
Other products	19,431	19,467
	226,544	233,571

The following is an analysis of the carrying amount of segment assets and additions to intangible assets and property, plant and equipment by business segments:

	Carrying amount of segment assets		Additions to intangible assets and property, plant and equipment	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Sales of power tools	215,571	147,403	46,579	17,178
Sales of air tools	7,888	9,775	551	807
Sales of hand tools	6,939	15,754	–	–
Other products	106	2,191	–	–
	230,504	175,123	47,130	17,985
Unallocated	82,668	127,445	383	192
	313,172	302,568	47,513	18,177

5. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2007	**2006**
	HK$'000	*HK$'000*
Impairment loss recognised in respect of:		
Property, plant and equipment	4,192	7,451
Intangible assets		
– Development costs	2,465	5,500
– Patents, trademark, licences and manufacture know-how	8,566	1,189
– Exclusive supply right	37,350	–
	48,381	6,689

During the year, the Directors of the Company reviewed the carrying amounts of the assets of the Group. In light of the current market conditions and the change of production plan, the Directors identified certain plant and machinery were impaired as at 31 December 2007. Accordingly, an impairment loss of HK$4,192,000 (2006: HK$7,451,000) in respect of such assets has been recognised in the consolidated income statement for the year.

Furthermore, the Directors of the Company identified development costs, patents, trademarks, license and manufacture know-how and exclusive supply right were impaired due to certain products ceased for production during 2007 and significant financial difficulty of the major would-be customer of the Group in 2008. Accordingly, an aggregate impairment loss of HK$48,381,000 (2006: HK$6,689,000) on such assets has been recognised in the consolidated income statement for the year.

6. FINANCE COSTS

	2007	**2006**
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	4,867	6,956
Other borrowings	3,053	373
Amount due to a director	317	–
	8,237	7,329

7. TAXATION

	2007	**2006**
	HK$'000	*HK$'000*
Current tax		
Overprovision of overseas income tax in prior years	(1,947)	–
Overprovision of land appreciation tax ("LAT") in the PRC	–	(950)
	(1,947)	(950)

No provision for PRC income tax has been made in the consolidated financial statements as all of these PRC subsidiaries incurred tax losses for the year.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% of certain PRC subsidiaries of the Company from 1 January 2008 onwards.

In accordance with the tax legislations applicable to foreign investment enterprises, certain subsidiaries in the PRC are entitled to exemptions from the PRC Enterprise Income Tax for the two years commencing from the first profit-making year of operation and thereafter, entitled to a 50% relief from the PRC income tax for the following three years. According to the New Law, the tax benefit will commence in 2008 and expire in the year end 2012.

Pursuant to the Decree Law No. 58/99M, Chapter 2, Article 12, dated 18 October 1999, a subsidiary of the Company, Gerrards (Commercial Offshore de Macau) Ltd., is exempted from Macao Complementary Tax. There is no provision in the relevant law and regulations on the duration of such exemption. Accordingly, no provision for the relevant income tax in Macau has been made in the consolidated financial statements.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

8. LOSS FOR THE YEAR

	2007 *HK$'000*	2006 *HK$'000*
Loss for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	15,605	12,914
Amortisation of intangible assets (included in cost of sales)	2,337	1,837
Release of prepaid lease payments	121	21
Directors' emoluments	1,830	1,666
Other staff costs	11,041	11,928
Total staff costs	12,871	13,594
Auditors' remuneration	1,649	1,305
Research and development expenditure	–	893
Allowances for trade receivable (included in administrative expenses)	3,247	–
Allowances for other receivables (included in administrative expenses)	320	10,144
Cost of inventories recognised as expenses	211,394	216,164
Allowance for obsolete and slow moving inventories (included in cost of sales)	8,460	5,769
Loss on disposal of property, plant and equipment	89	–

9. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006: Nil).

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK$88,546,000 (2006: loss of HK$116,546,000) and on the weighted average number of ordinary share in issue of 398,772,000 (2006: 374,640,000) shares in issue. The computation of diluted loss per share for the year ended 31 December 2007 and 2006 does not assume the exercise of potential ordinary shares as their exercise would result in reduction in loss per share for the year ended 31 December 2007 and 2006.

11. INTEREST IN AN ASSOCIATE

	2006 *HK$'000*
Cost of investment in an unlisted associate	12,473
Share of post-acquisition results and reserves, net of dividends received	(2,675)
Impairment loss recognised	(9,798)
	–

The summarised financial information in respect of the Group's associate, based on its unaudited management accounts for the year ended 31 December 2006, is set out below:

	2006
	HK$'000
Non-current assets	351
Current assets	96,735
Current liabilities	(101,734)
Net liabilities	(4,648)
Group's share of net assets of the associate	–
Turnover	70,419
Loss for the year	(5,126)
Group's share of loss of the associate for the year	(2,563)

The associate represented SBW Technische Gerate GmbH ("SBW"), a company incorporated in Germany. It was 50% directly held by Wang Sing Products Limited ("WSP"), a wholly owned subsidiary of the Company, as at 31 December 2006. The principal activities of the associate were distribution of power tools.

SBW was a major power tools customer of the Group. Since January 2007, SBW had refused to settle the outstanding balances due to the Group. The Group had no other alternatives but to terminate the supply of goods to SBW and therefore a number of arguments and disputes existed among WSP, the other shareholders of SBW and SBW. Furthermore, management of SBW did not allow the Group to gain full access to the books and records of SBW. Accordingly, the share of loss of SBW in the amount of approximately HK$2,563,000 recognised by the Group for the year ended 31 December 2006 was based on SBW's management accounts for that period. The Group had appointed a legal representative for the dispute in January 2007.

Having reviewed the financial condition of SBW and the dispute as mentioned above, the Directors believed it was uncertain that the Group was able to recover the investment cost and the outstanding amounts due from SBW. Accordingly, the Directors decided to make full allowance on all outstanding amounts due from SBW, amounting to HK$39,713,000 in aggregate, as at 31 December 2006. Furthermore, an impairment of goodwill in relation to investment in SBW amounting to HK$9,798,000 was recognised in the consolidated income statement for the year ended 31 December 2006.

On 15 May 2007, a settlement agreement was entered into among WSP, SBW and TIP Technische Industries GmbH ("TIP"), the remaining shareholders of SBW, and the key terms of the agreement are as follow:

a. WSP agreed to sell all shares in SBW to TIP for a consideration of Euro157,000 (equivalent to HK$1,367,000).

b. SBW agreed to repay to WSP the shareholder's loan of Euro1,389,000 (equivalent to HK$15,256,000), of which Euro939,000 (equivalent to HK$10,130,000) was to be paid immediately and the balance of Euro450,000 (equivalent to HK$5,126,000) was to serve as guarantee for returned goods, if any.

The disposal of SBW was completed on 14 August 2007 and the Group has recognised a gain on disposal of SBW of HK$1,367,000. During the year, a reversal of allowance for the amounts receivable from an associate of HK$5,063,000 is recognised in the consolidated income statement. This amount represents the amount received during the year of HK$10,130,000 net of allowance made during the year of HK$5,067,000. In the absence of financial information of SBW, the Group had not accounted for any share of result of SBW for the year ended 31 December 2007.

The legal representative of the Company has confirmed that the amount of Euro450,000 (equivalent to HK$5,126,000) has been credited to an escrow account on 14 August 2007 according to the settlement agreement. This amount of Euro225,000 will be paid to the Group on 30 June 2008 and the remaining Euro225,000 will be paid on 30 June 2009. However, the payment of these amounts to the Group is conditional on the guarantee for returned goods and therefore has not been recognised in the consolidated financial statements for the year ended 31 December 2007.

The Directors of the Company continue to make claims against SBW to recover the amounts receivable from SBW. The Directors have sought the legal advice on this matter and are of the view that, apart from exposure under the guarantee for returned goods mentioned above, the Group has no other legal liabilities or contingencies in respect of this matter.

12. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit period of 20-120 days to its trade customers. In addition, for certain customers with long-established relationship and good past repayment history, a longer credit period may be granted.

The following is an aged analysis of trade receivables at the balance sheet date:

	2007	**2006**
	HK$'000	*HK$'000*
Within 30 days	17,887	21,804
Between 31 to 60 days	23,286	18,856
Between 61 to 90 days	29,724	5,585
Between 91 to 120 days	4,919	9,552
Over 120 days	1,275	1,018
	77,091	56,815
Less: allowances for doubtful debts	(201)	–
Trade receivables	76,890	56,815
Other receivables	12,514	29,455
	89,404	86,270

13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the balance sheet date:

	2007	**2006**
	HK$'000	*HK$'000*
Within 30 days	34,834	28,909
Between 31 to 60 days	4,824	3,622
Between 61 to 90 days	2,310	4,835
Between 91 to 120 days	8,948	3,163
Over 120 days	7,928	12,310
Trade payables	58,844	52,839
Other payables	15,050	19,204
	73,894	72,043

BUSINESS REVIEW

The Group is principally engaged in the production and sales of products such as high-end AC and DC power tools and air tools. During the year under review, the Group's overall business performance was not satisfactory, mainly due to the increasingly difficult operating environment. Leverage on its foundation laid down in 2006, the Group has fully prepared for the adverse operating environment and actively adopted counter-measures. It also strived to enhance its operation efficiency, optimize the quality of its products and implement reasonable business improvement strategies, so as to reduce the loss of the Group and ensure that the overall performance of the Group remained stable.

As compared with the past years, the Group's operation and management improved throughout 2007, laying a solid foundation for its future development. During the year under review, the prices of commodities and raw materials in China continued to surge, resulting in a general increase in the cost of products of the manufacturing industry. In addition, due to the downward adjustment of the export tax rebate rate by the PRC Government and the continuous appreciation of Renminbi, the Group suffered from greater loss. Nevertheless, during the year under review, the Group was able to timely adjust its development strategy according to the situations and properly slowed its expansion progress down, while continuously explored overseas sales market. As a result, the effect induced by the unfavourable environment was mitigated. Thus, the Group was able to maintain its steady development.

In order to enhance its competitiveness, the Group actively upgraded its products during the year under review. It successfully transformed some of its products, increased the production of high-end products and enhanced the profitability of the Group. Meanwhile, the Group continued to expand its product range. The new series of power tools and air tools products expected to increase the sales of the Group in the coming years and further enhance the Group's profitability.

During the year under review, the Group achieved an encouraging progress in market expansion despite the difficult environment. The number of clients continued to increase. In particular, the Group has achieved breakthroughs in cooperation with world renowned tool brands. Orders from key clients continued to increase and have been placed for the coming years. Significant progress was also achieved in expansion to the internationally renowned chain stores. In addition to the orders delivered in 2007, negotiation has also been commenced for new orders and cooperations for the next two years. Currently, the Group's major clients include worldwide famous chain stores and leading distributors of power tools and air tools in the US and Europe, such as Bosch/Skil, Leroy Merlin, Orgill, Casterama, Kinfisher, Birgma, Lowe's and Truper. Following the continuous introduction of new products and the launch of high-end products, it is expected that the number of cooperation projects with each of the major clients will continue to increase and more brands will be attracted to cooperate with the Group.

The Group was affected internally in 2006, during which the overall market expansion of the Group was affected by the business development of its associate in Germany. The problem had been fully resolved during the year under review. A settlement agreement was entered into between the Group and its associate in Germany and an amount of Euro 1 million was recovered. Since then, the associate in Germany had been fully deconsolidated from the Group and will no longer bring adverse impact to the Group. The Group has been affected by the problem for sometime. The resolution of the problem cleared an obstacle for the development of the Group in future.

For the year ended 31 December 2007, the turnover and loss attributable to shareholders of the Group were HK$226,544,000 (2006: HK$233,571,000) and HK$88,546,000 (2006: HK$116,546,000) respectively. During the year under review, power tools remained the main source of revenue, accounting for 84% of the overall turnover, while air tools, hand tools and other products accounted for 3% and 13% respectively (2006: power tools accounted for 85%, air tools accounted for 2%, while other products accounted for 13%).

During the year under review, the Group continued to adopt a prudent business development strategy to mitigate the impact of the outside operating environment on the Group. During the year under review, the Group reasonably adjusted its product manufacturing and development strategy. It focused on the production of medium- to high-end products that are capable of resisting risks, and outsourced the production of low-end products to reduce production cost. In 2007, the Group's proportion of self-production was maintained at 35%, while the proportion of outsourcing was maintained at 65% (2006: the proportion was 39% and 61% respectively).

Facing a difficult environment and intense market competition, the Group increased its investment amount in its research and laboratory centre during the year. It has strengthened the training and technological exchanges among its technicians and engineers, and adopted a number of effective measures in order to enhance the Group's overall development capacity.

During the year under review, relatively substantial amendments were made to the domestic labour employment law, and the requirements on employment conditions have became more stringent. However, since the Group has been complying with the national law, fully respecting the interests of the employees and actively improving their welfare, the amendments did not have any impact on the Group but, on the contrary, created a more stable workforce for the Group.

FINANCIAL REVIEW

Turnover and Profit Analysis

For the year ended 31 December 2007, the Group recorded an audited turnover of approximately HK$226,544,000, a decrease of 3% as compared to 2006. Loss attributable to shareholders was approximately HK$88,546,000 in 2007 (2006: HK$116,546,000).

The decrease in turnover was mainly due to the decrease in sales of HK$39,087,000 in Germany, however, the Group was able to increase sales by HK$37,498,000 from other European customers. The low level of gross profit was due to the continuous increase in raw material prices, appreciation of Renminbi and impairment in inventory. During the year under review, the impairment loss in inventory amounted to HK$8,460,000 and the impairment loss in intangible assets amounted to HK$48,381,000.

Turnover Breakdown by Products and Geographical Locations

In terms of products, power tools were still the major income source for the Group. In 2007, the sales of power tools, air tools and hand tools and other products represented 84%, 3% and 13% of the Group's turnover, respectively (2006: power tools 85%, air tools 2% and hand tools and other products 13%).

Geographically, Europe was still the major market of the Group. In 2007, the turnover proportion for the Group in Europe, Australia, North America and other markets was 85:2:13 (2006: 83:12:5).

During the year under review, other than the German market, in which a settlement agreement has been entered into between the Group and its former associate SBW, resulting in a decrease of HK$39,087,000 in sales in Germany, the sales in European markets grew steadily. The sales in Australian and the US markets remained stable, accounting for 15% of the total turnover.

Gross Profit and Profit Margin Analysis

For the year ended 31 December 2007, the Group's gross profit decreased from approximately HK$11,638,000 in 2006 to approximately HK$6,690,000. The low level of gross profit was mainly due to the continuous increase in the prices of commodity and raw materials, among which the increase in the prices of metals such as copper, iron, steel and nickel soared to their historic heights over the past years. The prices of rubber and other materials also stayed at high levels.

Liquidity Resource

At 31 December 2007, the Group's cash on hand was HK$28,215,000 (2006: HK$17,460,000). The long term and short term debts of the Group were HK$149,838,000 (2006: HK$143,841,000) in aggregate. The total debts increased by approximately HK$5,997,000 as compared with the year ended of 2006. As at 31 December 2007, the net debt to equity ratio (bank loans – cash/equity) was 143% (2006: 160%).

Capital Expenditure

The Group's capital expenditure in 2007 was approximately HK$47.5 million (2006: HK$18.2 million), of which new equipment to comply with RoHS requirements amounted to HK$1.4 million (2006: HK$1.7 million), expenditure for development of mould amounted to HK$4.4 million (2006: HK$6.2 million) and R&D expenditure and licenses fee amounted to HK$3.4 million (2006: HK$4.1 million).

The major infrastructure of the Group's PRC production base was completed. There is no need to inject a great sum of capital for the construction of production plants in short term. The expected capital expenditure of the Group in 2008 will be approximately HK$10 million, of which expenses for development of mould amounted to HK$5 million and R&D expenses and licences fee amounted to HK$5 million.

Working Capital Analysis

For the year ended 31 December 2007, the Group's trade debtors' turnover days were 108 days (2006: 85 days). The account payables turnover days were 93 days (2006: 95 days) and the inventory turnover days were 40 days (2006: 54 days).

Shareholdings Structure

During the year, a total of 1,330,000 shares were issued pursuant to the exercise of the share options by the option holders of the Company. In addition, the Group has placed 74,000,000 new shares to an independent investor and issued 45,000,000 new shares as the consideration for an exclusive supply proposal. The total number of issued share capital was 494,970,000 shares (2006: 374,640,000 shares).

Pledge of Assets

The Group has pledged its building with net book values of approximately HK$179,000 (2006: nil) to secure general banking facilities granted to the Group.

Contingent Liabilities

At 31 December 2007, the Group did not have any material contingent liabilities (2006: nil).

Exposure to Foreign Exchange Risks

The Group's income and expenses are mainly denominated in US dollars and RMB and partly in Euro. During the year under review, the appreciation of RMB increased the Group's operating costs and raw material costs.

Employee Benefits and Training

For the year ended 31 December 2007, the Group had approximately 562 employees, of which, 180 employees were management staff and 118 employees were engineers, and the total staff costs (including directors' emoluments) amounted to approximately HK$12,871,000 (2006: HK$13,594,000).

The Group focuses on the enhancement of the quality of staff through offering all kinds of staff training. During the year under review, the Group organized internal training courses once a week for staff at all levels. Topics of the training courses included moral, ethic, languages, technical and management skill trainings. The Group also organized hundreds of on-the-job training programs in its production plant at Xingang.

PROSPECT

The operating environment will remain harsh, challenging and dynamic in future. Following the steady development over the past years, the Group will continue to strive for better development. In order to have sustainable business development, the Group continues to pay effort in market expansion and strengthen its existing strategic cooperation with the world renowned brands and chain stores. During the period under review, the Group has amended its business model from production in accordance with agreements to production for actual orders. The Group will also be committed to expanding its client base and securing more orders to boost sales.

With a view to secure more orders under the existing cooperation projects with key clients and cater to the demand of the markets of medium- and high-end products, the Group will continue to implement strategies in product enhancement, so as to upgrade its products and effectively mitigate the market risks to which the Group is exposed. The Group can enhance its market competitiveness through the above measures. Meanwhile, in response to the changes in the operating environment and the enhancement of the internal product quality, the Group will adopt more reasonable and flexible production strategies to effectively expand the area in which the Group manufactures its proprietary high-end products and endeavour to meet the product standards as required by the European Union. Looking ahead, the Group will continue to pay close attention to new technology. It will pay effort in the study and collection of market information to maintain continuous development and innovation. Leveraging on the continuous upgrade of its products and increasing cooperation with world renowned brands, the Group is confident that its profitability will be further strengthened.

In the coming year, the Group's laboratory will strive to advance to a higher level - the national professional laboratory. It will further strengthen its close cooperation with the world renowned certification companies and attract more famous cooperation partners, so as to jointly conduct research and development of new and advanced products in the industry and enhance the market competitiveness of the Group.

In future, the Group will continue to seek improvement in areas such as market expansion, product, development of new products, product range and management efficiency. It will expedite its business development and strengthen its profitability. Meanwhile, the Group will also enhance its product quality, implement stringent cost control measures, strengthen innovation and transparency and continuously increase its efficiency in operation and management. The Group expects that the overall business performance will improve in 2008.

QUALIFIED REPORT ISSUED BY MESSRS. DELOITTE TOUCHE TOHMATSU

The following is an extract from the report issued by Messrs. Deloitte Touche Tohmatsu on the consolidated financial statements:

Basis for qualified opinion

As explained in note 11 to this preliminary announcement, in May 2007 the Group entered into a settlement agreement in order to, among other things, dispose of its entire equity interest in an associate and to recover the shareholder's loan to the associate. The disposal was completed on 14 August 2007 and accordingly, the Group recognised a gain on disposal of the associate of HK$1,367,000 and a reversal of the allowance for the amounts receivable from the associate of HK$5,063,000 for the year ended 31 December 2007. The Group did not account for its share of result of the associate up to the date of disposal as management of the associate did not allow the Group to gain full access to the books and records of the associate since January 2007. For the year ended 31 December 2006, the Group's share of loss of the associate amounting to approximately HK$2,563,000 was recognised based on the unaudited management accounts of the associate. As we were unable to perform any procedures to assess whether these management accounts are free of material misstatement, our audit opinion on the consolidated financial statements for the year ended 31 December 2006 was qualified accordingly. In the absence of any financial information of the associate being provided by the management of the associate since January 2007, we were unable to perform any procedures to assess whether the share of result of the associate, gain on disposal of the associate and the reversal of allowance for the amounts receivable from the associate recognised in the year ended 31 December 2007 were fairly stated. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the amounts referred to above were free from material misstatement. Any adjustments found to be necessary would affect the Group's net assets as at 31 December 2006 and the Group's loss for the years ended 31 December 2006 and 2007.

Qualified opinion arising from limitation of scope

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient information concerning the matters as described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

REVIEW OF FINANCIAL INFORMATION

Disclosure of financial information in this preliminary announcement complies with Appendix 16 of the Rules Governing the Listing of Securities in the Stock Exchange of Hong Kong Limited (the Listing Rule). The Audit Committee has reviewed with senior management of the Group and Messrs. Deloitte Touche Tohmatsu the accounting principles and practices adopted by the Company and has discussed internal controls and financial reporting matters, including the review of the audited financial statements of the Company for the year ended 31 December 2007. The Board acknowledges its responsibility for the preparation of the accounts of the Company.

SCOPE OF AUDITOR'S WORK

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2007 as set out in the preliminary announcement have been agreed by the Company's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company confirms that it has complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules for the year ended 31 December 2007.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Board has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company confirms that, after specific enquiry with each Director, all Directors have confirmed compliance with the Model Code during the year ended 31 December 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2007.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2007.

By order of the Board
Chen Wai Yuk
Chairman

Hong Kong, 25 April 2008

As at the date of this announcement, the Board comprises four executive directors, namely Ms. Chen Wai Yuk, Mr. Wang Shu, Miss Chen Wai Wah and Mr. Zheng Wei Chong; one non-executive director, namely Mr. Ho Hao Veng and three non-executive independent directors, Mr. Wei Tong Li, Mr. Hui Chuen Fan, Matthew and Mr. Ang Siu Lun, Lawrence.

The 2007 Annual Report containing all the information required by the Listing Rules will be dispatched to shareholders and made available on the website of the Stock Exchange on or around 30 April 2008.