BUSINESS REVIEW

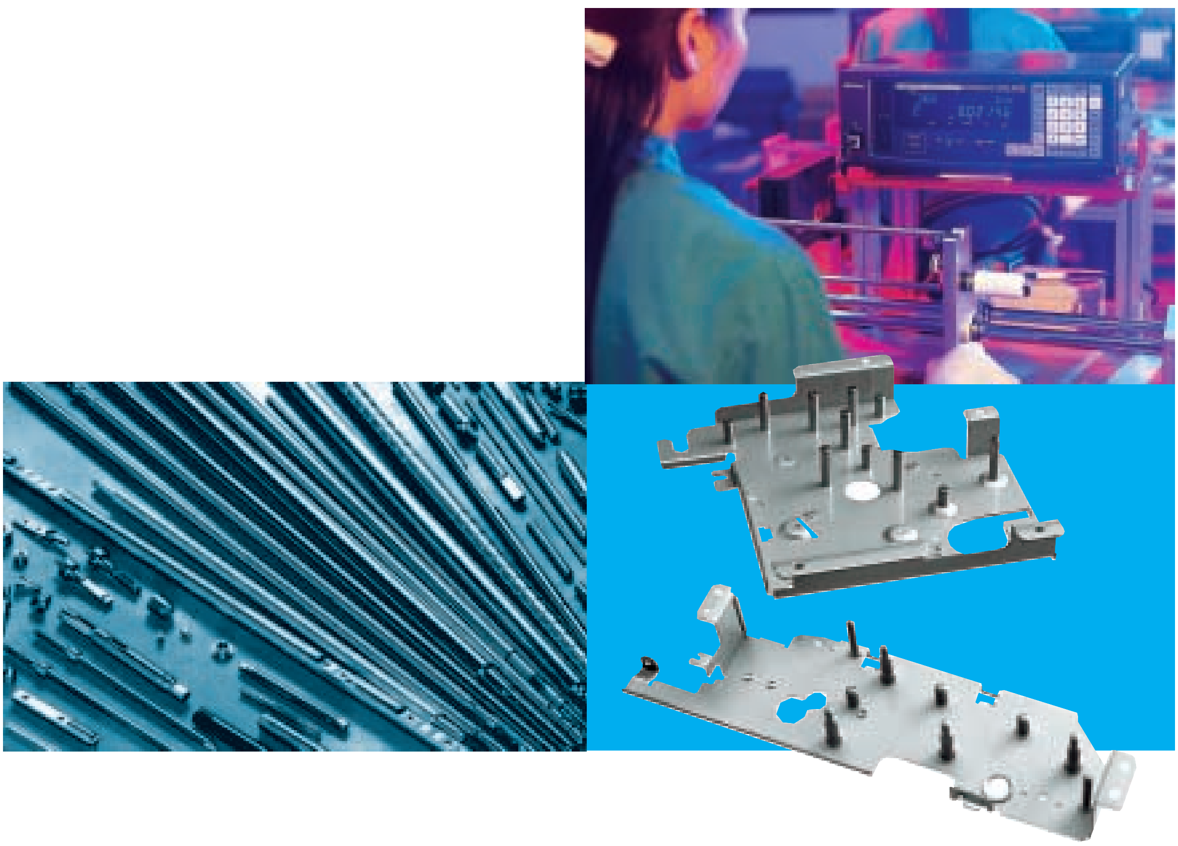
During the year ended 31 December 2005, the Group was principally engaged in (i) the design and fabrication of precision metal stamping and plastic injection moulds; (ii) manufacturing of precision metal stamping and plastic injection products and (iii) lathing of metal components. A review of the Group's operations for the year ended 31 December 2005 by major business segments is as follows:

Metal Division

During the year ended 31 December 2005, the overall turnover of the Group increased by 63% to approximately HK$485,023,000 as compared to that of approximately HK$296,860,000 for the year ended 31 December 2004. The significant rise in the Group's overall turnover for year ended 31 December 2005 was mainly contributed by the continuous growth of the Group's long-established metal division, whose turnover increased by approximately HK$170,385,000, or 57.4% over that for the year ended 31 December 2004. During the year, the Group's metal division continued to focus on serving renowned Japanese office automation equipment manufacturers including Toshiba, Konica Minolta, Canon, Kyocera Mita, Fuji Xerox, Ricoh, Epson and Brother and sales by the metal division to Japanese customers accounted for approximately 80.9% of the Group's total sales for the year ended 31 December 2005 (2004: 77%).

As a service provider to reputable manufacturers with internationally renowned brand names, management believes that the Group's business is strongly influenced by the characteristics of its major customer group. Management believes that the key focus of Japanese manufacturers, which are currently the Group's major customer group, include (i) a strong emphasis on product quality, in particular for office automation equipment such as photocopiers, printers and fax machines whose components require high precision standards to ensure the effective functioning of the equipment; (ii) emphasis on production efficiency to minimise production lead time and just-in-time inventory management and (iii) active involvement in the production process of its suppliers to ensure product quality and frequent mutual communications with a view to improving the production efficiency of its suppliers. To meet the stringent requirements of its customers, the Group has been following the Japanese style of management since the early stage of its establishment, which includes the implementation of the Japanese 7S management framework (Strategy; Structure; Systems; Style; Staff; Super-ordinate goals and Skills). Furthermore, to ensure high precision standards in manufacturing components for its customers, the Group had invested in high quality equipment. A substantial portion of the Group's production machinery is first-tier equipment produced by international renowned brand names such as Aida, Sodick, Agie, Panasonic and Nomura. The Group also maintains a strong quality control team with 176 employees as at 31 December 2005.

Such investment in quality and production management has proven to be beneficial to the Group. During the year ended 31 December 2005, the sales of the Group's metal division to most of its major Japanese customers increased significantly. In addition, Japanese customers who placed sale orders to the Group on a trial basis previously also increased their orders in 2005, resulting in a significant surge in sales of the Group's metal division to these customers during the year ended 31 December 2005.



To maintain its competitive advantage in product quality and management, the Group will continue to invest in first-tier machinery and equipment with a view to coping with the continuing increase in customer orders in 2006. A new production plant has also been established in the Suzhou city of the Yangtze Delta region of the PRC to serve the needs of our existing customers in that region and this new plant is expected to commence commercial production in May 2006, providing the Group with an estimated additional 40% increase in production capacity. In line with the Group's business expansion, experienced engineers and skilful talent were recruited, which included two senior Japanese management members who formerly held management positions with reputable Japanese corporations. Management believes that the Group will continue to benefit from the outsourcing trend of its Japanese customers, provided that the Group is able to improve its product quality and management on a continuing basis.

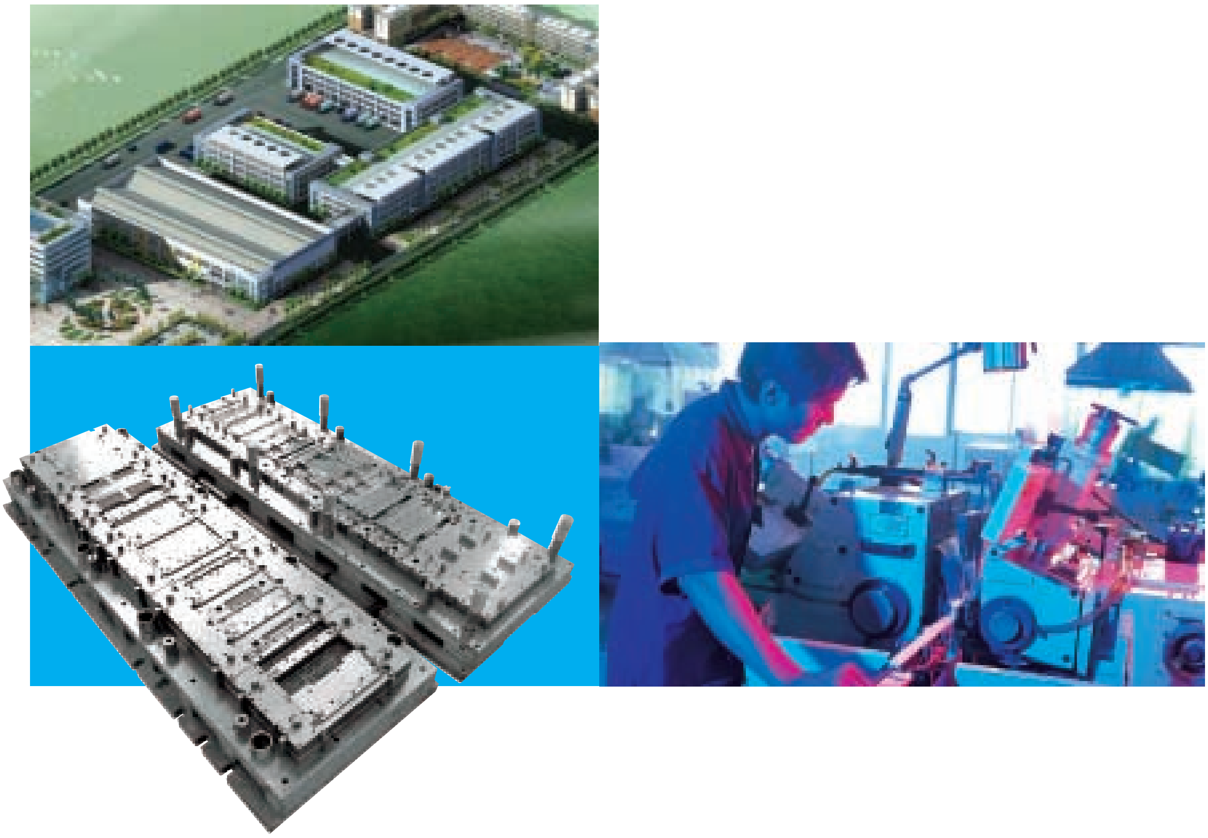
Apart from Japanese customers, the remaining 19.1% of sales of the Group's metal division was derived from reputable Hong Kong or international companies during year ended 31 December 2005. To broaden its customer base, the Group will continue to attract new customers. However, it is the policy of the Group to be selective in choosing new customers and management will take into account a number of factors, including the pricing of products and credibility of the potential customers in making its decision.

Plastic Division

The first production line of the Group's plastic division was established in late 2004. The Group decided to expand into plastic business because, while part of the office automation equipment manufactured by its customers is made of metal parts and components, plastic components account for the remaining portion. Management believes that the expansion into plastic business will not only provide the momentum for the Group's future growth, but also enable the Group to provide a more comprehensive services to its customers and reduce the production costs of its customers in logistic and quality control aspects that arise from their current practices to outsource the production of metal and plastic components to different suppliers.

As reported in our interim report, the plastic production line was operated on a trial basis in the Group's No.2 factory building in Shenzhen during the first half of 2005. It was moved to the Group's No.3 factory building in Shenzhen, which was built to accommodate the Group's plastic division, on 18 July 2005. Prior to the relocation of the plastic production line to No.3 factory building, the Group's plastic division was operated on a trial basis during which small scale orders were accepted for test-running the plastic production line and management members of the Group's plastic division devoted substantial effort in fine-tuning the production process and obtaining feedback from customers. As the plastic division was only operated on a trial basis with a view to test-running its production line, it recorded a loss of approximately HK$3,215,000 during the six months ended 30 June 2005.

In the second half of 2005, the Group's plastic division continued to develop and the Group had experienced an increase in orders from customers for plastic injection moulds and components during the second half of 2005. Turnover of the Group's plastic division increased to approximately HK$17,778,000 during the year ended 31 December 2005, as compared to a turnover approximately of HK$3,173,000 for



the six months ended 30 June 2005. Operating profit of the Group's plastic division for the second half of 2005 was approximately HK$3,884,000 and, after covering the initial loss of approximately HK$3,215,000 which was incurred during the trial production period in the first half of 2005, the Group's plastic division reported an overall operating profit of approximately HK$669,000 during the entire year ended 31 December 2005.

Under the Group's existing business model, the Group's customers normally required the Group to design and manufacture the relevant metal stamping and plastic injection moulds prior to the mass production of metal stamping and plastic components. After the moulds have been accepted by customers and payments for mould production have been received, the completed moulds are consigned in the Group's production plant for the subsequent production of metal stamping and plastic injection components. As the Group's plastic division only commenced commercial operations during the year ended 31 December 2005, a higher portion of its customer orders is related to the production of moulds. As such, the percentages of revenue from production of moulds and components to total turnover of the Group's plastic division were approximately 53% and 47% respectively during the year ended 31 December 2005, as compared to the percentages of 13% and 83% of the metal division during the same year. The plastic injection moulds produced by the Group during the year ended 31 December 2005 have been consigned in the Group's production plant for the manufacture of plastic injection components in subsequent years.

Human Resources

As at 31 December 2005, the total number of employees of the Group was 2,316, representing a growth of 33.8% as compared to 1,731 employees as at 31 December 2004. The increase in headcount was primarily due to the overall expansion of the Group during the year ended 31 December 2005.

The Group considers its employees, in particular the skilled technicians and production management members, as its core assets since the Group's future success relies on the strengthening of its product quality and management on a continuing basis. Apart from the continuing recruitment of domestic talents, seasoned Japanese management with strong production management experience are also recruited. In the second half of 2005, two seasoned Japanese managers with more than 30 years of management experience in reputable Japanese corporations joined the Group as senior management members to assist the Group in strengthening its production management and communications with its customers.

Remuneration policy is reviewed regularly, making reference to the prevailing legal framework, market conditions and performance of the Group and individual staff. However, apart from providing attractive remuneration packages, management believes that the creation of a harmonious working environment suitable for the development of employees' potential is also important for attracting and retaining qualified staff for its future success, in particular in a business environment where shortage of labour exists. Various employee activities were organised to build team spirit among the staff, which includes the organisation of company outings and sport activities in which the Group's employees, top management (including

executive directors) and customers participated. Substantial resources were also devoted to improve the factory and dormitory environment of the Group with a view to providing an attractive working and living environment for the Group's employees and, as a result of which the Group was awarded with an "Green Garden Community Honour Certificate (園林式、花園式(小區)榮譽證書)" granted by the Shenzhen Municipal Government.

Foreign Currency Exposure

A substantial portion of the Group's customers are reputable international manufacturers with worldwide distribution networks. At the same time, a majority of the Group's suppliers are international steel and metal producers designated by the Group's customers. Accordingly, most of the Group's sales and cost of sales are currently in HK dollars and US dollars and only a portion of its sales and purchases are denominated in Renminbi. During the year ended 31 December 2005, approximately 47%, 50% and 3% (2004: 70%, 25% and 5%) of the Group's sales and approximately 36%, 55% and 9% (2004: 41%, 47% and 12%) of the Group's purchases were denominated in Hong Kong dollars, US dollars and Chinese Renminbi, respectively.

Management is aware of the potential foreign currency risk that may arise from the continuous appreciation of Chinese Renminbi. Although only a small portion of the Group's purchases are denominated in Chinese Renminbi currently, the Group had taken actions to manage its foreign currency exposure. During the year ended 31 December 2005, management had refinanced the Group's Renminbi borrowings with Hong Kong dollar loans and accordingly, the percentage of Chinese Renminbi borrowings to the Group's total bank borrowings reduced from approximately 12.6% as at 31 December 2004 to nil as at 31 December 2005. As at 31 December 2005, deposits denominated in Chinese Renminbi amounting to RMB37,600,000 (equivalent to approximately HK$36,131,000) was pledged for obtaining Hong Kong dollar loans of an equivalent amount, which effectively acted as a cover against the appreciation of Chinese Renminbi. Management will evaluate the Group's foreign currency exposure on a continuing basis and take further actions to minimise the Group's exposure whenever necessary.

FINANCIAL REVIEW

An analysis of the Group's turnover and results by segment is as follows:

	Year ended 31 December				Six months ended 30 June *(Note 1)*			
	2005		2004		**2005**		2004	
	HK$'000	**%**	*HK$'000*	%	***HK$'000***	**%**	*HK$'000*	%
Turnover								
Metal division								
Design and fabrication of metal stamping moulds	**62,544**	**12.9%**	55,034	18.5%	**24,806**	**12.4%**	25,906	20.8%
Manufacturing of metal stamping components and lathing products	**390,097**	**80.4%**	228,383	76.9%	**166,055**	**83.1%**	92,969	74.6%
Others *(Note 2)*	**14,604**	**3.0%**	13,443	4.6%	**5,730**	**2.9%**	5,718	4.6%
	467,245		296,860		**196,591**		124,593	
Plastic division								
Design and fabrication of plastic injection moulds	**9,433**	**2.0%**	–	–	**2,548**	**1.3%**	–	
Manufacturing of plastic injection components	**8,345**	**1.7%**	–	–	**625**	**0.3%**	–	
	17,778		–		**3,173**		–	
Total	**485,023**		296,860		**199,764**		124,593	
Segment results								
Metal division	**100,334**		76,588		**41,272**		30,976	
Plastic division	**669**		(802)		**(3,215)**		–	
Operating profit	**101,003**		75,786		**38,057**		30,976	
Unallocated expenses	**(1,438)**		(340)		**–**		–	
Finance costs	**(6,672)**		(4,008)		**(3,661)**		(1,361)	
Income tax expenses	**(9,678)**		(5,445)		**(3,512)**		(2,388)	
Minority interest	**–**		(230)		**–**		(230)	
Profit attributable to equity holders of the Company	**83,215**		65,763		**30,884**		26,997	

Note 1: *Financial figures for the six months ended 30 June 2004 and 2005 are extracted from the Group's interim report dated 14 September 2005.*

Note 2: *Others mainly represented sales of scrap materials*

Turnover

Metal division

The increase in turnover of the Group's metal division by 57.4% from approximately HK$296,860,000 for the year ended 31 December 2004 to approximately HK$467,245,000 for the year ended 31 December 2005 was primarily driven by the increase in revenue generated from manufacturing of metal stamping and lathing products. With the continuous development of the Group's production management and its reputation among prominent international manufacturers, the Group experienced an increase in sale orders from its existing customers during the year ended 31 December 2005. Those customers which placed sale orders to the Group on a trial basis previously also started to increase its orders to the Group, which contributed to the significant increase in revenue generated from the manufacture of metal stamping and lathing products during the year ended 31 December 2005.

Plastic division

The Group's plastic division only commenced commercial operations during the year ended 31 December 2005. As a newly established division, revenue generated by the Group's plastic division only constituted approximately 3.7% of the Group's total turnover during the year ended 31 December 2005. Since, a majority of the Group's customers required the Group to design and manufacture the moulds prior to the mass production of components, a majority of customer orders received by the Group's plastic division were related to mould production during its initial stage of operations in 2005. As such, the percentages of revenue from production of moulds and components to total turnover of the Group's plastic division were approximately 53% and 47% respectively during the year ended 31 December 2005, as compared to the percentages of 13% and 83% of the metal division during the same year. The moulds produced by the Group's plastic division during the year ended 31 December 2005 have been consigned in the Group's production plant for the manufacture of plastic injection components in subsequent years.

Gross profit

The Group achieved a gross profit of approximately HK$161,031,000 for the year ended 31 December 2005, representing an increase of 38.7% as compared to that for the year ended 31 December 2004. Gross profit margin for the year ended 31 December 2005 was approximately 33.2%, which decreased as compared to that of 39.1% for the year ended 31 December 2004. The decrease in gross profit margin was primarily because (i) the Group's revenue from the manufacture of metal stamping and plastic injection components and lathing products increased significantly by 74.5% and its proportion to total turnover increased from approximately 76.9% for the year ended 31 December 2004 to approximately 82.1% for the year ended 31 December 2005. At the same time, with the significant increase in revenue from the manufacture of metal stamping and plastic injection components and lathing products, the proportion of revenue from design and fabrication of metal stamping and plastic injection moulds to total turnover was diluted from 18.5% for the year ended 31 December 2004 to 14.9% for the year ended 31 December 2005 although its amount increased by approximately 30.8% from approximately HK$55,034,000 for the year ended 31 December 2004 to approximately HK$71,977,000 for the year ended 31 December 2005. Since the gross profit margin from the manufacture of components and lathing products is generally lower than that from design and fabrication of moulds, the significant increase in revenue from the manufacture of metal stamping and plastic injection components and lathing products had diluted the Group's overall gross profit margin for the year ended 31 December 2005 and (ii) with the continuous development of the Group's production management and its reputation among customers, management believe that the Group is poised to achieve further growth in revenue in the future. To establish a solid foundation for the Group's future growth, the Group has been expanding its scale of operations since the latter half of 2004 which included the establishment of new production lines and the recruitment and training of additional production and management personnel with a view to accommodating the expected surge in sale orders in the coming years. The expansion of the Group's scale of operations had increased the Group's production overhead costs, which are semi-fixed in nature, and consequently lowered the Group's overall gross profit margin during the year ended 31 December 2005. Nevertheless, management considers the expansion of operating scale as a necessary step for achieving future growth and expects the effect of increased production overhead costs to be offset through economy of scale brought by the continuous increase in the Group's turnover in the future.

However, as compared to the six months ended 30 June 2005, the overall gross profit margin of the Group for the year ended 31 December 2005 had increased by approximately 0.7% as compared to that of approximately 32.5% for the six months ended 30 June 2005. The increase in gross profit margin was mainly attributable to (i) the increase in the percentage of revenue from design and fabrication of moulds to total turnover from approximately 13.7% for the six months ended 30 June 2005 to approximately 14.9% for the year ended 31 December 2005 which were primarily caused by the increase in orders for production of moulds from customers in the second half of 2005 in preparation for the production of components in 2006 and (ii) economies of scale brought by the continuous increase in the Group's turnover in the second half of 2005 which partially offset the increased semi-fixed production overhead costs resulting from the expansion of the Group's scale of operations.

Segment results

For the year ended 31 December 2005, the segment result of the Group's metal division amounted to approximately HK$100,334,000, representing a 31.0% increase as compared to that of approximately HK$76,588,000 for the year ended 31 December 2004. This increase was primarily brought by the surge of turnover of the Group's metal division during the year.

The Group's plastic division only commenced commercial operations during the year ended 31 December 2005. In the first half of 2005, the Group's plastic division was operated on a trial basis during which small orders were accepted primarily for test-running the production process. Since the Group's plastic division was not operated on full scale, it recorded an initial loss of approximately HK$3,215,000 during the six months ended 30 June 2005.

In the second half of 2005, the Group's plastic division continued to develop and the Group had experienced an increase in orders from customers for plastic injection moulds and components during the second half of 2005. Segment result of the Group's plastic division for the second half of 2005 was approximately HK$3,884,000 and, after covering the initial loss of approximately HK$3,215,000 which was incurred during the first half of 2005, the Group's plastic division reported an overall operating profit of approximately HK$669,000 for the entire year ended 31 December 2005.

Finance costs

Prior to its initial public offering in May 2005, the Group's had primarily relied on bank loans and finance lease arrangements to finance the expansion of its business. Since the Group has been expanding its scale of operations since the latter half of 2004, the balance of bank loans and finance lease obligations increased during the first half of 2005 which consequently resulted in an increase in the Group's finance costs from approximately HK$1,361,000 for the six months ended 30 June 2004 to approximately HK$3,661,000 for the six months ended 30 June 2005.

Following its initial public offering in May 2005, the Group had been able to utilise a portion of its listing proceeds and cash generated from operating activities to finance its capital expenditure and daily operational requirements and had thereby become less reliant on borrowings. Accordingly, despite (i) the continuous expansion of the Group's Shenzhen production plant; (ii) the commencement of construction of the Group's new Suzhou production plant in the latter half of 2005 and (iii) the increase in market interest rates in the second half of 2005, the finance costs of the Group for the second half of 2005 decreased to approximately HK$3,011,000 as compared to that of approximately HK$3,661,000 for the first half of 2005. The finance costs of the Group for the entire year ended 31 December 2005 totaled HK$6,672,000.

Income tax expense

Yihe Precision Hardware (Shenzhen) Co., Ltd., the Group's principal subsidiary in the PRC, is subject to PRC enterprise income tax at a rate of 15%. However, it is fully exempted from PRC enterprise income tax for two years starting from its first year of profitable operations, followed by a 50% reduction in PRC enterprise income tax for the next three years. The tax exemption period of Yihe Precision Hardware (Shenzhen) Co., Ltd. ended on 31 December 2004 and it was subject to a tax rate of 7.5% during the year ended 31 December 2005. Coupled with the increase in the Group's profit before income tax, the Group experienced an increase in income tax expense for the year ended 31 December 2005 as compared to the previous year.

Profit attributable to equity holders of the Company

Despite an increase in finance and income tax expenses and the decrease in overall gross profit margin which was primarily caused by the change in the respective percentages of revenue from mould and component production to total turnover as mentioned above, the overall profit attributable to equity holders of the Company increased by approximately 26.5% from approximately HK$65,763,000 for the year ended 31 December 2004 to approximately HK$83,215,000 for the year ended 31 December 2005, which was primarily attributable to the continuous increase in the Group's turnover during the year.

LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

Following the Company's initial public offering on 11 May 2005, the Group received net proceeds of approximately HK$125,080,000 which were intended to be used to finance the future expansion of the Group's Shenzhen operations and repayment of loans. For the year ended 31 December 2005, the Group recorded net cash generated from operating activities amounting to approximately HK$75,772,000, representing an increase of approximately 44.7% as compared to that of approximately HK$52,356,000 for the year ended 31 December 2004. The increase in net cash generated from operating activities was in line with increase in the turnover and profit of the Group during the year ended 31 December 2005. Net cash used for investing activities which was primarily related to the purchases of fixed assets and amounted to approximately HK$92,952,000 for the year ended 31 December 2005, increased by approximately 90.3% as compared that of approximately HK$48,854,000 for the year ended 31 December 2004 due to the continuous expansion of the Group's scale of operations. In addition, the Group recorded an increase in net cash generated from financing activities from approximately HK$5,166,000 for the year ended 31 December 2004 to approximately HK$34,222,000 for the year ended 31 December 2005 which was a result of the combination of (i) the receipt of the net proceeds from the Company's initial public offering during the year ended 31 December 2005 and (ii) the increase in repayment of borrowings during the year ended 31 December 2005 as the Group had become less reliant on borrowings for its daily operations and business expansion as mentioned above.

Bank loans as at 31 December were denominated in Hong Kong dollars with fixed or floating interest rates and were used to finance the Group's operation and expansion. Treasury activities are controlled by senior management members with an objective of achieving a balance between the Group's expansion needs and its financial stability. An analysis of the Group's key liquidity and capital adequacy ratios as at 31 December 2005 are as follows:

	2005	2004
Inventory turnover days *(Note 1)*	67	71
Debtors' turnover days *(Note 2)*	73	99
Creditors' turnover days *(Note 3)*	85	126
Current ratio *(Note 4)*	1.02	0.81
Net debt-to-equity ratio *(Note 5)*	0.29	1.39

Note:

1. *Calculation of inventory turnover days is based on the ending inventories divided by cost of goods sold and multiplied by the number of days during the year.*

2. *Calculation of debtors' turnover is based on the ending balance of trade receivables divided by turnover and multiplied by the number of days during the year.*

3. *Calculation of creditors' turnover is based on the ending balance of trade payables divided by cost of goods sold and multiplied by the number of days during the year.*

4. *Current ratio is calculated based on the Group's total current assets divided by total current liabilities.*

5. *Net debt-to-equity ratio is calculated based on the total balance of bank borrowings, finance lease obligations and amount due to related parties less cash and bank balances divided by shareholders' equity.*

Inventory turnover days

Substantially all of the Group's Japanese customers have their own designated raw material suppliers. These Japanese customers generally require the Group to purchase raw materials from their designated suppliers for the manufacture of metal and plastic components and delivery and pricing of raw materials are negotiated based on three-way communications among the Group, its customers and suppliers. This practice enables the Group to manage its inventories in an efficient manner despite a continuous increase in its turnover and business scale. The Group's inventory turnover days for the year ended 31 December 2005 was approximately 67 days, which decreased by 4 days as compared to that for the year ended 31 December 2004 owing to a continuous improvement of the Group's inventory management.

Debtors' and creditors' turnover days

During the year ended 31 December 2005, the Group's debtors' and creditors' turnover days decreased from approximately 99 days and 126 days for the year ended 31 December 2004 to approximately 73 days and 85 days respectively owing to the continuous improvement of the Group's cash flow management during the year.

Current ratio and net debt-to-equity ratio

During the year ended 31 December 2005, the Group received net proceeds from initial public offering amounting to approximately HK$125,080,000. Consequently the Group had become less reliant on borrowings for its daily operations and business expansion. Coupled with the continuous inflow of cash from operations, the Group's current ratio and net debt-to-equity ratio improved and changed from approximately 0.81 and 1.39 as at 31 December 2004 to approximately 1.02 and 0.29 as at 31 December 2005.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2005, the charges on the Group's assets included (i) pledge of bank deposits of approximately HK$111,131,000; (ii) pledge of leasehold land and buildings located in Hong Kong with net book value of approximately HK$7,163,000 and HK$1,874,000, respectively, and (iii) mortgage of equipment under finance lease obligations with net book value of HK$106,116,000. Such charges are used for securing the Group's bank borrowings and finance lease obligations.

CONTINGENT LIABILITIES

As at 31 December 2005, the Company has given guarantees in respect of the banking facilities of its subsidiaries of HK$103,067,000 (2004: HK$27,265,000), and guarantees in respect of finance lease liabilities of its subsidiaries of HK$9,527,000 (2004: HK$13,921,000). Save for the above, the Group had no other contingent liabilities as at 31 December 2005.

DIVIDEND

An interim dividend and special dividend of HK1.8 cents and HK1.2 cents per ordinary share, totaling HK$15,600,000 was paid on 20 October 2005. The Directors recommend the payment of a final dividend of HK2.6 cents per ordinary share in respect of the year ended 31 December 2005.

Subject to the approval of the Directors' recommendation by the shareholders at the annual general meeting to be held on 24 May 2006, the final dividend will be paid on or about 30 May 2006 to the shareholders whose names appear on the registers of members of the Company on 24 May 2006. The registers of members of the Company will be closed from Friday, 19 May 2006 to Wednesday, 24 May 2006 (both days inclusive). In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Service Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. Thursday, 18 May 2006.

OUTLOOK

Management sees great potential in both the global and regional markets taking into account that (i) the global and the PRC mould markets grew by 7.2% and 20.3% in 2004, respectively; (ii) in 2004, only 50% of the demand for high quality and high precision mould products in the PRC had been met by domestic production, with the remaining portion being satisfied by imported moulds, indicating a strong potential for the growth in demand for domestically-produced high precision moulds in the PRC; (iii) the PRC is expected to become a more visible and key electronics production base in Asia Pacific, sharing 42% of the region's electronic equipment production by 2007; and (iv) outsourcing by Japanese manufacturers to non-Japanese suppliers is still fairly new with a majority of the components used by the Group's customers still being manufactured by suppliers with Japanese background, whose operating costs are generally higher than those of the domestic companies. Taking into account the above factors, management believes that the Group is poised to achieve future growth as a result of the expansion in mould and electronic equipment markets in the PRC as well as market share gains.

Management considers 2005 and 2006 to be years of investment. During the year ended 31 December 2005, the Group made investments to transform itself from a metal mould and component suppliers to a comprehensive service provider covering metal and plastic moulds and components and related assembly services with a view to reducing the costs of the Group's customers in logistic and quality control aspects that arise from their current practices of outsourcing the production of metal and plastic components and related assembly services to different suppliers. As part of the Group's expansion plan, a new third factory building within the Group's existing production complex in Shenzhen commenced commercial operations on 18 July 2005. The new third factory building serves as the Group's production base for design and fabrication of plastic injection moulds, plastic injection components and assembly services currently with a monthly production capacity of approximately 55 sets of plastic moulds and 2,700,000 units of plastic components. Management believes that the horizontal expansion into the plastic injection mould and component manufacturing business is critical to the Group's transformation into a comprehensive service provider and will also provide the Group with the momentum for growth in the coming years.

The Group's Shenzhen plant is currently serving the production factories of its customers, which primarily comprises top-tier Japanese brand names for office automation equipment and consumer electronic products, located within the Pearl Delta Region. During the year ended 31 December 2005, Konica Minolta (one of the major customers of the Group) had indicated to the Group that it was constructing a new production plant in the Wuxi city of the Yangtze Delta region which would be in addition to production base in the Pearl Delta Region. This new plant of Konica Minolta, which had commenced production in October 2005, would also require the same type of products and services currently provided by the Group in Shenzhen. Further, a number of other existing customers of the Group have established production bases in the Yangtze Delta Region which include Canon in Suzhou and Fuji-Xerox and Ricoh in Shanghai. In addition, the Yangtze Delta Region has become a production hub for various other multi-national manufacturers which are also target customers of the Group taking into account (i) the credibility of these multi-national manufacturers; (ii) the potential scale of their future sale orders and (iii) the higher profitability which is likely to be obtained by serving multi-national manufacturers than small scale local manufacturers owing to more stringent quality and production requirements of multi-national manufacturers. As such, with a view to capturing the business opportunities that have arisen from the expansion of business of its existing and target customers in the Yangtze Delta Region and deepening the Group's relationship with its existing customers, management resolved to establish a new production plant in Suzhou, during the year ended 31 December 2005. Supported by the Group's Shenzhen and Suzhou factories, management believes that the Group will be able to enlarge its coverage of customers in Southern and Eastern China, whilst maximising economies of scale.

The construction of the Group's new production plant in Suzhou was completed in January 2006. Currently the Group's new production plant in Suzhou is under trial production stage and management members of the Group's new production plant in Suzhou are currently working with certain of the Group's existing customers which include Konica Minolta, Canon and Ricoh for fine-tuning the production process. The Group's new production plant in Suzhou will commence commercial production in May 2006. At its initial stage of operations, the Group's new production plant in Suzhou will focus on tapping potential business from the Group's existing customers located in the Yangtze Delta Region but at the same time it will also strive to expand and obtain business from other reputable multi-national manufacturers at the later stage.

Apart from the new production plant in Suzhou, management also plans to expand the production capacity of the Group's existing production plant located in Shenzhen during the year ending 31 December 2006 in order to handle the continuous increase in future customer orders. With a view to financing the expansion of production capacity, a top-up placement was executed in March 2006 for the placement of 80,000,000 shares to institutional investors. Net proceeds of approximately HK$107,462,000 was obtained from the placement and management intends to apply the proceeds to expand the production capacity of the Group as to approximately HK$92,000,000 for the acquisition of new machineries and as to approximately HK$15,462,000 for general working capital of the Group.

Under the current business model of the Group, the metal stamping and plastic injection moulds produced by the Group are primarily consigned in the Group's production plant and used for the subsequent production of metal stamping and plastic injection components. This business model provides a stable income stream for the Group since the production cycles of moulds normally last for three to four years. However, at the same time, management also sees the potential in manufacturing and selling the moulds on a stand-alone basis taking into account (i) the growing demand for moulds in the PRC market and (ii) the demand for high precision moulds from the Group's existing customers and other multi-national manufacturers for use in their factories located outside Hong Kong and the PRC. Accordingly, as mentioned in the Prospectus dated 29 April 2005, the Group intends to establish a mould research and development centre in Shenzhen. The purpose of establishing the mould research and development centre is to expand the production capacity and enhance the technical expertise for the manufacture of moulds with a view to (i) capturing the potential businesses from the selling of moulds on a stand-alone basis and (ii) supporting the continuous expansion of component production under the existing business model.

As described above, one of the key characteristics of the Group's existing Japanese customers is their strong emphasis on quality and production management. Accordingly, apart from the expansion of production capacity, the Group also devoted substantial resources in strengthening its product quality and management and, in return, the Group received accreditations from its customers which included (i) "Very Valuable Vendor Award" granted by Canon; (ii) "Acclamation Ceritificate (表彰狀)" granted by Konica Minolta; (iii) an approval certificate for chemical substances management (CMS) standard and "GMS Certificate of Green Activity" granted by Ricoh and (iv) "Excellent Supplier Award" granted by Toshiba. Management believes that the Group's commitment to product quality and management, coupled with the investments made for providing more comprehensive services to its customers, will deepen its customer relationships which will in turn transform into economic benefits for the Group.

Currently the Group is primarily serving as a mould and component supplier to reputable Japanese manufacturers engaging in the production of office automation equipment which includes photocopiers, fax machines and printers. Taking into account that (i) currently the Group's revenue is primarily derived from the production of metal stamping moulds and components with other business opportunities relating to the office automation equipment market which include the manufacture of relevant plastic injection moulds and components and the provision of assembly services remain unexplored and (ii) outsourcing by Japanese manufacturers to non-Japanese suppliers is still fairly new with a majority of the components used by the Group's customers still being manufactured by suppliers with Japanese background, management believes that there are still ample opportunities for the continuous expansion of the Group in the office automation equipment market. However, at the same time, the Group continuously searches for other growth opportunities and, as part of such exploration, the Group successfully passed the TS16949:2002 accreditation, an international quality accreditation for the manufacture of automobile parts, in January 2006 and the Group had started to obtain small scale orders for the production of automobile parts on a trial basis. However, taking into consideration that (i) there are still ample opportunities for the expansion of the Group in the existing office automation equipment market and (ii) the substantial time that may be required for the successful establishment of solid business relationship with reputable automobile manufacturers, management will continue to focus a majority of its resources in the office automation equipment market and expects a substantial portion of its customer orders continues to come from office automation equipment manufacturers in near future.

APPLICATION OF LISTING PROCEEDS

The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 11 May 2005. The net proceeds from listing amounted to approximately HK$125,080,000 and as at 24 April 2006, the Group had applied the listing proceeds as follows:

	Planned as per prospectus dated 29 April 2005	**Actual application as at 24 April 2006**
	HK$	*HK$*
Purchases of machinery and equipment for the manufacture of plastic injection moulds and plastic injection components	32 million	32 million
Purchases of additional stamping machines for the manufacture of metal stamping moulds and metal stamping components	25 million	25 million
Establishment of a mould development centre	35 million	6 million
Repayment of bank loans	30 million	30 million
General working capital of the Group	3 million	3 million
	125 million	96 million

The unutilised proceeds from listing of approximately HK$29 million are related to the setting up of a mould research and development centre. The Company will continue to use the remaining HK$29 million for the setting up of a mould research and development centre as stated in the Prospectus. Such remaining proceeds are currently placed on short-term bank deposits.