

Management Discussion and Analysis

Operational and Financial Review

The Group was established in 1995 and is principally engaged in the manufacture and sale of plastic and metallic parts and components of optical and opto-electronic products including DSCs, copier (including copier-based MFPs), computer peripherals, handsets, traditional film cameras, and others, and subsequently related accessories as well as manufacture, painting and sale of molds and cases. The Group was successfully listed on the Stock Exchange on 10 February 2006.

Turnover

The turnover of the Group for the year was approximately US\$78,871,000, representing an increase of approximately 18% as compared with approximately US\$66,855,000 for the last year.

The growth in the turnover was due to the continued increase in demand for optical and opto-electronic products, especially camera handsets and DSCs resulting in a continued increase in shipment of components and accessories of DSCs, copiers/printers and handsets.

Gross Profit

The gross profit of the Group increased by 32% to US\$32,206,000 in 2005 from US\$24,457,000 in 2004. Gross profit margin was approximately 40.8% in 2005 as compared with approximately 36.6% in 2004. The gross profit improvement were mainly due to economies of scale, enhanced technique and quality control which enhanced product yield rate and the improvement in the products mix with the increase in the percentage of high gross margin components, such as high end zoom lenses mechanical parts.

Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for the year ended 31 December 2005 was approximately US\$20,030,000, representing an increase of 79.0% as compared with US\$11,193,000 in 2004 and was approximately 3.8% higher than the profit estimate of approximately US\$19,300,000 (equivalent to approximately HK\$149,770,000) as stated in the Prospectus.

Liquidity and Financial Resources

As at 31 December 2005, the Group had current assets of approximately US\$64,897,000 (2004: US\$55,431,000) while current liabilities of approximately US\$10,322,000 (2004: US\$37,022,000). The current ratio of the Group was approximately 629% (2004: 150%).

The Group financed its operation with internally generated resources. As at 31 December 2005, the Group had cash at bank and on hand of approximately US\$43,610,000 (2004: US\$12,240,000), and no bank borrowings.

Net cash generated from operating activities in 2005 was US\$37,933,000, representing an increase of 373%, compared with US\$8,012,000 for the last year, mainly due to obvious growth in pre-tax profit and accelerated operation cycle (accounts receivable turnover days + inventory turnover days – accounts payable turnover days) lowering from 111 days in 2004 to 43 days in 2005.

Management Discussion and Analysis

Net cash outflow from investing activities in 2005 was US\$1,249,000, representing capital expenditures primarily for the purchase of additional machinery and equipment.

Net cash outflow from financing activities was US\$4,522,000, incurred for paying dividend of 2004. The Group focused on its core business and pursued long-term stable growth, therefore the Group had adopted conservative principles in its financial operation. Working capital can fully meet the demand of capital expenditure and there is no need for debt finance or increasing capital from shareholders.

The Board is in the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditure.

Exchange Risk Exposure and Contingent Liabilities

The Group's sales were principally denominated in US dollars and Hong Kong dollars while purchases were also transacted mainly in US dollars, Renminbi, and Hong Kong dollars. The Group does not foresee significant risk in exchange rate fluctuation and no financial instruments have been used for hedging purposes. The group will use forward exchange contract for hedging purposes appropriately.

As at 31 December 2005, the Group had no significant contingent liabilities.

Capital Commitment

As at 31 December 2005, the capital commitment of Group was US\$42,000 (2004: US\$229,000).

Employment, Training and Development

As at 31 December 2005, the Group had a total of 2,587 employees. Remuneration packages of the Group are maintained at a competitive level to attract, retain and motivate employees and are reviewed on a periodical basis.

The Group strives to maintain good relations with its employees and is committed to providing employee training and development on a regular basis to maintain the quality of our products.

Outlook

Following the enhancement of production facilities in various business divisions of the Group by acquiring additional advanced machinery and precision equipment, the Group's future production capacity and its market competitiveness would be further enhanced. Moreover, the Group has a broad customer base including Canon, Ricoh, Olympus, Pentax, Nikon, etc which provide long-term stable growth, and will continue to provide a variety of products to meet different customers' specification.

Looking forward to 2006, with continuing outsourcing trend, growing popularity of camera handsets and increasing demand from emerging markets, the directors believe that market scales will expand continuously, which brings sustainable growth to the Group's business activities. The Group's management is confident that the business will continue to grow in the future and generate good returns to its shareholders.

Management Discussion and Analysis

Dividend

The Board has resolved not to recommend the payment of any dividend in respect of the year ended 31 December 2005. However, the Board has resolved to recommend a special interim dividend of HK\$0.047 (approximately US0.60 cents) per ordinary share amounting to approximately HK\$39,010,000 (approximately US\$5,001,000) in respect of the year ending 31 December 2006 and the special interim dividends is expected to be paid on or around 20 July 2006 to those shareholders whose name appear on the register of members of the Company on 20 June 2006.