Management Discussion and Analysis

Financial Review

Turnover for the year ended 31 December 2005 amounted to HK$168 million, which represented a slightly decreased of 1% as compared to last year.

The consolidated results of the Group for the financial year ended 31 December 2005, which amounted to a loss of HK$27.2 million (2004: HK$21.4 million). This represented an increase of 27% as compared to the loss of previous financial year. The increase in loss noted mainly due to the following:

(i) In 2005, an impairment loss of HK$12.3 million was made on interests in associates. No such loss in 2004.

(ii) The decrease in share of losses attributable from an associated company of HK$6.1 million (2005: HK$1.9 million and 2004: HK$8.0 million).

(iii) In 2004, the Group recognized a gain on deemed disposal of a subsidiary and disposal of a subsidiary amounted to HK$3.3 million. No such gain in 2005.

(iv) The changes in fair value and impairment of available-for-sale securities was decreased by HK$2.9 million (2005: HK$1.8 million and 2004: HK$4.7 million).

At the balance sheet date, the Group's net liabilities were HK$31.4 million (2004: Net liabilities of HK$4.0 million). The drop in net assets of approximately HK$27 million as compared to last year is mainly due to the losses incurred for the year.

Final Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 December 2005 (2004: HK$Nil)

The Group's Liquidity and Financial Resources

At the balance sheet date, the Group had cash and bank deposits of HK$4.1 million (2004: HK$1.6 million) which included a pledged bank deposits of HK$1.5 million (2004: HK$ Nil) and a foreign currency deposits of RMB1.4 million (2004: RMB 0.5 million).

The Group's consolidated net borrowings increased from last year's figure of HK$22.5 million to HK$23 million. The Group's gearing ratio, which is expressed as a percentage of the Group's net borrowings over total assets value of HK$74 million as at 31 December 2005 (2004: HK$80 million), has increased from 28% to 31%. The increase is attributable to the dropped in the Group's total assets value as compared to last year.

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The amount of debt due within one year at the balance sheet date amounted to HK$23 million (2004: HK$22.5 million). The table below shows the type, maturity, currency and interest rate profiles of the Group's bank and other borrowings at the balance sheet date.

	2005	2004
	HK$'000	*HK$'000*
DEBT MATURITY PROFILE		
Within one year	**23,018**	22,471
Within two to five years	**—**	—
Total	**23,018**	22,471
INTEREST RATE PROFILE		
Unhedged floating	**8,249**	7,386
Fixed	**14,769**	15,085
Total	**23,018**	22,471
NATURE OF DEBT		
Secured other loans	**8,269**	8,585
Unsecured other loans	**14,749**	13,886
	23,018	22,471
CURRENCY PROFILE		
Hong Kong Dollars	**14,749**	13,886
Renminbi	**8,269**	8,585
	23,018	22,471

At the balance sheet date, the Group's secured borrowings amounting to HK$8.3 million (2004: HK$8.6 million) which were secured by a legal charge on certain leasehold land and buildings of the Group situated in the PRC with carrying value of approximately HK$16 million at the balance sheet date.

Despite that the Group sustained recurrent losses and had net current liabilities of HK$63 million at 31 December 2005, the directors of the Company are of the opinion that the Company and the Group will be able to meet their obligations as and when fall due after taking into account the following:

1. HK$30 million loan facilities is made available to the Company from financial institutions up to 31 March 2007 which the financial institutions reserve the right to terminate the facilities at any time by notice to the Company in writing; and

2. continuing financial support received from a substantial shareholder, Tees Corporation.

Management Discussion and Analysis

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

Exposure to Fluctuation in Exchange Rates, Interest Rates and Related Hedges

To manage the risk associated with an uncertain market environment, the Group pursues a funding strategy, using equity as far as possible to finance long-term investments.

The Group's borrowings and cash and cash equivalents are primarily denominated in Hong Kong dollars, Renminbi and US dollars. The Group does not hedge against foreign exchange risk, as the management believe the Hong Kong dollar will remain pegged to the US dollar in the foreseeable future and exchange risk associated with the Renminbi is expected to be minimal.

The interest rates profile of the Group's borrowings comprises a mixture of fixed and floating rates. The Group does not hedge against interest rates risks as the management does not expect the impact of any fluctuation in interest rates to be material to the Group.

Material Acquisitions and Disposal of Subsidiaries

In 2005, the Group had neither any material acquisition nor disposal.

In March 2006, the Company has disposed of Successful Mode Investments Limited, a wholly-owned subsidiary of the Company, and its entire investment in Chinese 2 Linux (Holdings) Limited ("C2L"), an associated company of the Company, for a consideration of HK$2 million. The disposal constituted a discloseable transaction of the Company under the Listing Rules and details of the disposal was contained in our circular to the shareholders on 18 April 2006. An impairment loss of HK$12 million due to the disposal was included in the Group's results for the year ended 31 December 2005.

Business Review

2005 was a challenging year for the manufacturing business. The high labor cost and ever rising raw material cost, coupled with severe competition among different manufacturers, has put a lot of pressure on the selling prices of our products. As a result, the Group's turnover was decreased by HK$2 million or 1% to HK$168 million (2004: HK$170 million). Gross margin was at 23% compared to 22% in 2004 with the management's effort to implement various cost-reducing measures.

The Group incurred a net loss of HK$27.2 million in 2005 as compared to a net loss of HK$21.4 million in 2004. An impairment loss of interests in associates of HK$12 million was included in the Group's results for the year ended 31 December 2005 and represented the deficit of consideration over the carrying value of the associate which was being disposed of in March 2006.

Management Discussion and Analysis

Outlook

We expect the business environment for manufacturers in 2006 will be difficult as materials and labor costs remain at a high level. We will focus on the manufacturing business where we have the scale and competitive edge and continue our effort in research and development of new products with better margin.

Material Contingent Liabilities

The Group is not aware of any material contingent liabilities as at 31 December 2005.

Employees and Remuneration Policy

At the balance sheet date, the Group employed approximately 38 staffs (2004: 39) in Hong Kong and approximately 1,453 employees (2004: 1,214) in Mainland China. Employee remuneration are given and reviewed based on market norms, individual performance and experience. Awards and bonuses are considered based on the Group's business results and employees' individual merit.

The Group also granted share options to certain employees of the Group on 10 July 2000, entitling them to subscribe for shares of the Company. These options are exercisable in stages commencing twelve months from the date of grant. The expiry date of the options is ten years from the date of grant. During the year under review, no option was exercised.