

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Turnover of the Group increased to HK\$239,619,000 for the six months period ended 30 June 2006, an increase of 15.8% as compared to the corresponding period. The increase was mainly contributed by turnover from Sino Stride Technology (Holdings) Limited ("SST"), a subsidiary acquired in April 2006.

The Group recorded a loss attributable to shareholder of HK\$40,118,000 for the period under review, representing a decrease of 18.5% or HK\$9,109,000 compared to same period in 2005.

System integration solutions services

The turnover and the net profit of SST as consolidated in the Group's operating results for the three months period ended 30 June 2006 were HK\$36,752,000 and HK\$2,623,000 respectively, which represents its 3-month operating results over the period April to June 2006.

The Group believes that, SST now being a member of the Group, can leverage on the platform of the Group's strong business connections in the PRC market for its future business expansion and earnings enhancement.

Photomasks

With persistent efforts to secure customers' orders and improve cost efficiency, the turnover of photomask business increased significantly from HK\$6,693,000 to HK\$20,656,000 for the period ended 30 June 2006 whilst the loss decreased from HK\$51,596,000 to HK\$31,089,000. This was a reflection of our continuing marketing efforts on positioning Remarkable's manufacturing core competency as high-end photomask manufacturer.

The Group is cautiously optimistic on its performance in the second half of 2006 as there is a promising trend in demand for high end products.

Telephone accessories and power cords

Despite continuously cost increase in raw materials, labour and energy costs, the Group's deployment in various measures including sales price enhancement, purchases cost minimization and expenses control has started paying off. During the period under review, turnover increased slightly to HK\$108,414,000 (2005: HK\$107,729,000) and loss reduced to HK\$1,359,000 (2005: HK\$6,937,000).

Adaptors and electronic products

Sales decreased by 17.3% to HK\$41,720,000 as a result of continuously decrease in demand for conventional adaptors. Coupled with increase in both labour and material costs, a loss of HK\$5,891,000 was recorded in the period under review, an increase of HK\$5,323,000 as compared to the last year.





MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business review (continued)

Printed circuit boards

Sales of the division dropped by 40.5% to HK\$15,730,000 as a result of intensified competition in the market and increase in material costs including gold salt and copper. The loss increased by HK\$3,664,000 to HK\$7,029,000 when compared to the last year.

High-precision metal components

Sales of the division increased slightly by 5.6% to HK\$31,422,000. However, the rise in material costs, such as aluminium and zinc had negative impact on lowering the margin. The profit dropped from HK\$1,181,000 to HK\$128,000.

Jointly controlled entity – copper wire

As a result of surging prices in copper, turnover of Hoperise has increased by HK\$183,346,000 or 42.2% despite decrease in sales in term of tonnage by 12.2% as compared to corresponding period in 2005. The profit attributable to the Group for the period under review rose by 23.6% to HK\$15,301,000. Faced with fluctuation in commodity price, Hoperise has adopted a prudent strategy in inventory control and marketing to ensure profitability of the joint venture.

Jointly controlled entity – 3S project (GPS, GIS, RS)

Loss attributable from 3S project to the Group for the six months period ended 30 June 2006 is HK\$9,080,000. In view of the feeble demand for Mobile Location Services, the Group has already made full provision for its investment in Sky Light Communication (Shenzhen) Limited. Whilst the Group will closely monitor the performance of the project of development and integration for software and hardware in the intelligent traffic field as undertaken by Sky Land Navigator Technology (Shenzhen) Limited.

Associate – Tianjin Printronics Circuit Corporation (“TPC”)

During the period under review, TPC's turnover increased by 43.7% to HK\$153,490,000 and the profit attributable to the Group increased by 20.7% to HK\$6,872,000.

Prospects

It is the Group's strategy of developing a diversified business model to reduce risks associated with over reliance on our traditional manufacturing businesses. The completion of acquisition of SST in April 2006 earmarked the Group's efforts in enhancement the technology content of its products. SST has started contributing to the Group and we believe that there are huge potentials and vast opportunities for its long-term growth in the PRC market.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Prospects (continued)

We have built a solid foundation for the photomask business, which has delivered high quality products at a very competitive price to our customers. This helps reinforce Remarkable's image in the hearts of our customers as their partners in exploring the PRC market. We expect the trend for our customers to migrate to high end products will continue in future and are cautiously optimistic for the performance in the second half of 2006.

With respect to the traditional manufacturing businesses, the rationalization of our structure, optimization of our inventory management and cost control are still to be the Group's core business directives with an aim to weather the impact of raw material costs fluctuation. We expect that the performance of these businesses remains stable in the second half of 2006.

Liquidity and financial resources

At 30 June 2006, the Group's gearing ratio (total borrowings divided by equity) has decreased to 0.3 (31 December 2005: 0.37) whereas current ratio (current assets divided by current liabilities) has increased to 1.12 (31 December 2005: 0.96).

Bank loans had increased by approximately HK\$50,201,000 to HK\$164,268,000 as at 30 June 2006.

At 30 June 2006, the capital commitments of the Group and its jointly controlled entities contracted but not provided for and authorised but not contracted for amounted to approximately HK\$5,176,000 (31 December 2005: HK\$4,217,000) and HK\$2,685,000 (31 December 2005: nil) respectively.

Although the Group has been facing recurring operating losses and limited working capital, the directors are still of opinion that the Group will be able to raise sufficient funds to meet its financial obligations as Shougang Holding has agreed to provide adequate funds to enable the Company to meet in full its financial obligations as they fall due for the foreseeable future.

Exposure to fluctuations in exchange rates

As the balance sheet date, loans in the amount of HK\$74,260,000 (31 December 2005: HK\$63,197,000) due by the Group to a related company will be settled in Renminbi. In addition, exposure to fluctuation in exchange rates is immaterial to the Group's financial results as both the Group's borrowings and revenue were mostly denominated in Hong Kong Dollars or United States Dollars.





MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital structure

During the period under review, a total of 516,465,926 new shares were issued to acquire 71.3% interests in SST.

Financial guarantee contracts

The guarantee for banking facilities utilised by a jointly controlled entity, decreased from approximately HK\$81,733,000 as at 31 December 2005 to approximately HK\$42,942,000 as at 30 June 2006. In addition, one of the subsidiaries of SST has given a cross guarantee of approximately HK\$9,680,000 to a bank in connection with credit facility utilised by a third party.

Sales order book

Notwithstanding the flooding as disclosed below, the sales orders position as compared to 2005 and for the second half 2006 has remained stable in the foreseeable future.

Post balance sheet events

In July 2006, a flood happened in Dongguan, the PRC and caused significant damage to the assets of the Group. The damage included machineries and inventories which were estimated to have a book value of approximately HK\$5,077,000 and HK\$21,174,000, respectively. Management is currently negotiating with an insurance company and the insurance claim amount to be received is estimated to be approximately HK\$30,449,000. However, up to the date of report, there is no insurance claim received from the insurance company as the Group has not reached a settlement agreement with the insurance company and negotiations are still in progress.

On 24 August 2006, SST announced a proposed voluntary withdrawal of listing of the ordinary shares of HK\$0.01 each in the share capital of SST (the "Shares") (the "Proposed Withdrawal") that would be conditional upon the approval by the registered holders of the Shares excluding Made Connection Limited (a wholly-owned subsidiary of the Company) and its associates at an extraordinary general meeting convened on 19 September 2006 (the "EGM"). In view that SST is in the process of clarifying the applicability of the Code of Share Repurchases in connection with the Proposed Withdrawal, the EGM has been adjourned to a later date to be determined by SST (the "Adjournment"). Details of the Proposed Withdrawal and Adjournment were disclosed in the circular and the announcement issued by SST dated 4 September 2006 and 19 September 2006 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employees and remuneration policies

The Group had a total of approximately 3,721 employees as at 30 June 2006.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration to motivate and retain existing employees and at the same time to attract potential employees. Remuneration packages are structured in such a way that take into account local practices in the various geographical locations in which the Group and its associates operate. These remuneration packages include basic salaries, allowances, retirement schemes, service bonuses, fixed bonuses, performance related payments and share options where appropriate.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2006 (2005: Nil).

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the period under review.

