Management Discussion and Analysis of Results of Operations

OVERVIEW

Capitalising on the solid foundation established in the previous years, the Group recorded a satisfactory performance in the financial year ended 31 July 2006 despite the challenging operating environment. Under the leadership of our solid management team, the Group was able to offset most of the negative effects from rising material costs and overall increase in labour costs through productivity improvement and tighter overhead control.

During the financial year under review, the turnover of the Group was recorded at HK$1,402.26 million, representing a growth of 14.29% as compared to the previous financial year of HK$1,226.91 million. The Group's gross profit margin reduced marginally from 15.40% to 14.77%. The Group reported a higher profit attributable to Shareholders of HK$45.32 million as compared to that of the previous financial year of HK$24.59 million.

BUSINESS AND FINANCIAL REVIEW

Turnover and gross profit by business activities of the Group

– *Plastic injection and moulding business*

  During the financial year ended 31 July 2006, the Group's core business, plastic injection and moulding, posted a steady growth of 10.83% to record sales of HK$1,114.55 million, representing 79.48% of the Group's turnover. The increase in turnover was mainly attributable to encouraging orders from core customers, coupled with some new customers being built-up during the financial year under review.

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The foremost contribution by geographical location was largely derived from the business operations in Zhuhai which had achieved remarkable sales of HK$722.36 million (2005: HK$659.68 million). The other manufacturing sites in Qingdao and Shenzhen had also increased their sales turnover and contributed positively to the Group during the financial year ended 31 July 2006.

In term of result, this segment's contribution margin had declined marginally from 11.91% to 11.60%. This was mainly due to the increased resin price and labour costs which had outstripped the positive growth in sales. However, the continual negotiation with customers and suppliers on price adjustments during the financial year under review had softened the adverse impacts to minimal.

– *Assembling of electronic products business*

The turnover for the assembling of electronic products business had soared to HK$177.19 million and represented a rise of 10.01% as compared to the previous financial year. The rebound in sales was encouraging as this segment had not performed well for the past three consecutive financial years. During the financial year under review, the Group had managed to secure more stable orders from the existing customers and developed new potential customers which are expected to contribute significantly in the coming year.

On the other hand, fees generated from processing of printed circuit boards for electronic products and its related electronic products using surface mounting technologies ("SMT") which formed part of this segment, had declined from HK$40.31 million for the previous financial year to HK$34.46 million for the financial year under review. As a result, the turnover contribution from processing fee to this segment had dropped from 25.03% to 19.45%. The decrease in the processing fee was mainly due to a sudden drop in sales order from a major customer in the second half of the financial year.

Despite that the sales of this segment improved in this financial year, this segment result had reduced by 87.76% to record at HK$1.57 million. This was mainly attributable to the increase in material and labour costs, coupled with the idle costs arising from lower sales orders for the SMT lines.

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– *Mould design and fabrication business*

The mould design and fabrication business had recorded a remarkable growth of 83.69% with a turnover of HK$110.52 million for the financial year under review. During the financial year ended 31 July 2006, the Group had secured substantial tooling orders from the plastic injection customers and had optimised the utilization of the production facilities. The improvement was notable and had further strengthened the ability of the Group in offering integrated manufacturing solution to its customers.

Despite that the operating costs had increased as a result of the rising labour costs, this segment's contribution margin had registered an improvement from 26.39% to 28.58% to achieve a record result of HK$31.59 million.

Other net income

During the financial year under review, the Group had generated other net income of HK$9.94 million which comprised mainly interest income from banks and collection of rental income, as compared to other net losses of HK$9.00 million in previous financial year. Net loss on disposal of fixed assets was reduced from HK$14.36 million to HK$4.47 million in the financial year ended 31 July 2006.

Distribution and administrative expenses

During the financial year ended 31 July 2006, distribution and administrative expenses amounted to HK$28.28 million and HK$77.77 million respectively. The distribution costs increased by 8.14% as compared to previous financial year but as a percentage over turnover, it had recorded a marginal drop from 2.13% to 2.02%.

The administrative expenses went up by HK$3.19 million as compared to previous financial year of HK$74.58 million. The increase was resulted from the adoption of new accounting standard Hong Kong Financial Reporting Standard 2, which required the recognition of fair value of HK$1.52 million of share options granted to the employees as expenses and general increase in other administrative expenses.

Finance costs

The finance costs for the financial year 31 July 2006 amounted to HK$53.45 million (2005: HK$45.61 million), represented an increase of HK$7.84 million and 17.19% as compared to previous financial year. This was principally attributable to the soaring interest rates during the financial year. The interest rates were ranging from 4.84% to 9.75% per annum as compared to that of 2.71% to 5.93% per annum in the previous financial year.

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Share of losses of associates

During the financial year under review, the Group's share of associates' losses amounted to HK$5.45 million as compared to that of HK$3.30 million in the previous financial year.

The losses were mainly resulted from Wako VS Nano Technologies (Zhuhai) Co., Ltd. ("Wako VS Zhuhai"), a company which is principally engaged in the manufacturing and selling of plastic parts and components using spray painting technology. During the financial year ended 31 July 2006, Wako VS Zhuhai had yet to establish stable customer base and consequently, its production capacity was left idle recurrently. In addition, Wako VS Zhuhai was unable to align its manpower efficiently with volatile customers' orders.

During the financial year ended 31 July 2006, the Group had established two other associates namely VS-Usotor (Zhuhai) Co., Ltd. ("VS-Usotor") and VS Industry Vietnam Co., Ltd. ("VS Vietnam"). The Group invested HK$0.95 million to participate in 19.00% of the total shareholding interest in VS-Usotor which is principally engaged in the metal stamping business with the strategic objective of further enhancing the Group's integrated manufacturing solutions capability.

The Group had also made its first investment foothold in Vietnam through the acquisition of shareholding interest in VS Vietnam, a company involved in the manufacture and sales of plastic moulded products and parts. Total investment in VS Vietnam by the Group was HK$6.98 million. This investment is consistent with the Group's direction in strengthening the business in plastic injection.

Though the Groups' effective interests in VS-Usotor and VS Vietnam were below 20.00%, they were considered as associates by virtue of the Group's significant influence over their management, including participating in their financial and operating policy decisions. These associates had not operated in full-scale and hence, their contributions to the Group's results were rather insignificant for the financial year under review.

FUTURE PROSPECTS

The Directors are confident that the key customers with whom the Group has maintained a long relationship will continue contributing considerable amount of sales to the Group and at the same time, the Group will continue to explore and develop new customers in order to expand its customer base. In this connection, the Group will take more initiatives to branch into new product range so that the Group can capture customers of various industries. The Group will also continue its efforts in expanding the assembly and mould design and fabrication businesses to further balance the Group's sales mix.

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The mould design and fabrication business has seen much improvement and contributed positively to the Group during the financial year under review. The Group will drive further to optimise the capacity utilisation and solidify the performance of this segment. Further, the Directors expect the assembly business will expand remarkably in future as the Group has successfully developed a photo printer's sub-assembly business from a Japanese branded manufacturer. This product is newly launched in the market and the orders are expected to increase progressively over a certain period of time. As this product requires the supply from both plastic injection and assembly divisions, the Directors believe that the success of this product will certainly boost the overall performance of the Group in the years to come.

The Group has decided to set up a new factory in Qingdao under a wholly owned subsidiary, Qingdao GP Electronic Plastics Co., Ltd. in view of the significant growth in the demand of plastic moulded products in Qingdao. The new facilities which are expected to commence operations in November 2006, will enable the Group to ride on more business opportunities in the Northern China region and continue to move ahead with greater momentum in the future.

The Group has anticipated the labour cost will continue rising in China. Fluctuation in raw material prices will also increase the cost of manufacturing and squeeze the profit margin during the transition period in the event that the burden of the price increase is not shifted to the customers on time. The Group will strive to improve production efficiency and produce more value added products to soften these adverse impacts and will take advantage of its stable customer base to create better synergies between our various facilities to benefit future growth.

Considering the increasing overhead in China and given the rather low cost infrastructure in Vietnam, the investment in Vietnam is envisaged to enhance the Group's competitiveness in the long run. Looking forward, our early presence in Vietnam will enable us to grasp the golden opportunity to emerge as one of the major plastic moulded products suppliers in Vietnam.

Overall, we are optimistic about the outlook of the Group and trust the Group will continue its profitability momentum in the years to come.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial year under review, the Group has financed its operations principally through a combination of internally generated cash flow and facilities from the banks in Hong Kong and PRC.

As at 31 July 2006, the Group had cash and bank deposits of HK$241.36 million (2005: HK$266.33 million) of which HK$61.33 million (2005: HK$154.78 million) were pledged to banks for the banking facilities granted to the Group. There were 73.85% and 23.29% of the total cash and bank deposits which were denominated in United States ("US") dollars and Renminbi ("RMB") respectively with the remainder in Hong Kong dollars.

The Group's total borrowings were stated at HK$792.87 million (2005: HK$833.82 million), inclusive of a loan from a substantial Shareholder of HK$29.27 million (2005: HK$34.24 million) as at 31 July 2006. Among these borrowings, 35.83%, 61.52% and 2.65% were denominated in US dollars, RMB and Hong Kong dollars respectively. The total borrowings maturity profile is set out as follows:

	As at 31 July 2006		As at 31 July 2005	
Repayable	**HK$ million**	**%**	HK$ million	%
Within 1 year	**524.72**	**66.18**	518.84	62.22
After 1 year but within 2 years	**121.01**	**15.26**	132.07	15.84
After 2 years but within 5 years	**142.26**	**17.94**	173.13	20.76
After 5 years	**4.88**	**0.62**	9.78	1.18
Total borrowings	**792.87**	**100.00**	833.82	100.00
Cash and bank deposits	**(241.36)**		(266.33)	
Net borrowings	**551.51**		567.49	

The net borrowings of the Group had reduced by HK$15.98 million to stand at HK$551.51 million and the decrease was principally due to the Group's net surplus cash flows from operations and the cut-down in capital spending during the financial year under review.

The gearing ratio, represented by the net interest-bearing borrowings over the total assets as at 31 July 2006 was 38.10% (2005: 38.70%). The marginal decline in gearing ratio was in line with the reduction in net borrowings of the Group.

As at 31 July 2006, the Group's net current liabilities had improved marginally from HK$114.28 million to HK$112.14 million. The Directors are confident that the Group would generate sufficient cash flow from the operations to support its working capital requirements and future capital commitments. Also, there would have adequate financing being continuously accessible by the Group from time to time. The Group will also endeavour to further improve its financial position over time.

CAPITAL STRUCTURE

At as 31 July 2006, the Group's shareholders' fund was stated at HK$374.41 million (2005: HK$324.29 million). Total assets of the Group, which comprised mainly fixed assets, amounted to HK$1,447.67 million (2005: HK$1,466.39 million).

CHARGES ON ASSETS

As at 31 July 2006, certain assets of the Group with an aggregate carrying value of HK$491.32 million (2005: HK$574.20 million) were pledged to the banks to secure loan and trade financing facilities for the Group.

COMMITMENTS AND CONTINGENT LIABILITY

As at 31 July 2006, the Group's capital and operating lease commitments were HK$35.70 million and HK$2.36 million respectively (2005: HK$28.55 million and HK$31.27 million respectively)

As at 31 July 2006, the Group had no material contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

The Group maintains a conservative approach on foreign exchange exposure management. The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are mainly denominated in RMB and US dollars. During the financial year under review, the Group registered net exchange losses of HK$0.96 million (2005: HK$3.13 million). The management will continue monitoring the foreign currency risk exposure so that it is kept at an acceptable level.

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EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2006, the Group had total of 7,864 employees (2005: 8,141). On top of that, 1,193 (2005: 1,019) persons were engaged by certain independent third parties ("Providers") under processing arrangements. During the financial year under review, there was no significant change in the Group's remuneration policies for its employees.

Employees' cost of the Group (excluding Directors' emoluments and wages paid to employees employed under the processing arrangements with the Providers) for the financial year under review amounted to HK$173.27 million (2005: HK$112.42 million). The increase in employees' cost was mainly due to rise in remuneration as a result of increase in minimum wages imposed by the local authorities of the PRC. The Group's remuneration package is reviewed annually and appropriate adjustments are made with reference to prevailing conditions of the human resource market and the general economy. In addition, the Group's employees are rewarded with reference to their performance and experience of the individual employees. The Group has also allocated more resources to improve the welfare, living standard and quality of the employees to attract and retain quality staff to support the future growth of the Group.

The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong. It also participates in a government pension scheme for its employees in the PRC pursuant to the relevant rules and regulations of the PRC.

The Group also operates a share option scheme as incentives and rewards to eligible participants who contribute to the success of the Group's operation. Details of the scheme are set out in the section headed "Share Option Scheme" of the Report of the Directors.