

During the year ended 31st December, 2006, the Group continued to focus on the manufacture and marketing of mould bases, metal and parts.

The Group recorded turnover of approximately HK\$2,135 million and earnings of approximately HK\$150 million for the year ended 31st December, 2006.

### **MOULD BASE MANUFACTURING AND MARKETING**

The business environment remained uncertain in general. The slowing down of the economy in the United States and Western European countries, coupled with protectionism measures as adopted by some of these countries toward China, had resulted in a sluggish growth in market demand. The appreciation of Renminbi and the retreat of tax rebate on some export commodities in China also slowed down the growth in the manufacturing sector in China. Facing unstable material costs, some customers of the Group held back their decision in placing order and reduced machining jobs previously sub-contracted out. Consequently, there was pressure on the average selling price of the Group's products. On the other hand, the labour cost was continuously uplifted in line with the living standard in China. Furthermore, price fluctuation of raw materials during the review period made it difficult for the Group to exercise cost control efficiently. All these factors led to a drastic increase in the Group's total operating cost eventually.

Throughout the period as reviewed, the Group continued the expansion of plants in Southern China and re-engineered its management and operation processes, thus pushing up its short-term administration and operation cost. In line with its long-term business development, the Group initiated the expansion of its Heyuan plant in Guangdong province. The construction of new plants and acquisition of new machinery and production facilities pushed up the depreciation cost on plant and machinery. It was anticipated that it would take some time to realize return on such capital investment. Furthermore, in order to enhance its competitive edge and productivity, the Group successfully merged the production facilities and manpower of the Dongguan plant into its Heyuan plant, incurring extra relocation cost. After restructuring, it also takes time for both manpower and machineries to be better coordinated, thus productivity was slightly affected during the tuning in period.

### **TRADING OF MOULD STEEL**

As affected by the fluctuation in the cost of alloy material, the price of quality mould steel had surged upward. However, by providing comprehensive value added services to customers, the Group mould steel business still maintained at a similar level as that of last year.

In light of the above factors, the Group's profitability performance was not up to satisfaction during the period under review.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at 31st December, 2006, the Group had a net cash deficit of approximately HK\$571 million. The Group had cash balance of approximately HK\$150 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

The Group adopted conservative measures to hedge any exchange fluctuation and incurred approximately HK\$6 million losses on foreign exchange during the year ended 31st December, 2006.

The Group continues to incur capital expenditure for the plant expansion and factory construction, which is financed by internal resources.

## **GEARING RATIO**

Total debts of the Group were approximately HK\$721 million, equal to approximately 58% of equity attributable to equity holders of the Company of approximately HK\$1,244 million.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31st December, 2006, the Group employed a total of approximately 11,240 employees, including approximately 10,900 employees in its PRC production sites and approximately 340 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to employees with reference to the individual's performance.