

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 digital still cameras ("DSC"), copiers (including copier-based multifunction peripherals ("MFP")), 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 listed on the Main Board of the Stock Exchange on 10th February 2006.

Turnover

The turnover of the Group for the year was approximately US\$82,220,000, representing an increase of approximately 4% compared with approximately US\$78,871,000 for the last year.

During the year, some major customers revised its sales strategy that caused reduction of sales orders. However, the situation was well compensated by the Group's diversified customers base approach that had brought the Group a steady growth in sales. Together with a strong market demand for optical and opto-electronic products, especially camera handsets and DSCs, a steady growth rate for turnover was therefore sustained. To maintain the Group's high sales profit margin, the Group continued to focus on development of high-end products including zoom lens mechanical parts.

Gross Profit

The gross profit for the year was approximately US\$30,701,000 (2005: US\$32,206,000) and the gross profit margin was approximately 37.3% (2005: 40.8%). Due to economies of scale, enhanced technique, quality control and our commitment in research and development of high-end components, the Group was able to maintain the gross profit margin at a high level.

Other Income

The other income, contributed mainly by the bank interest income, for the year was approximately US\$5,860,000, representing an increase of approximately 154% as compared with approximately US\$2,310,000 for the last year.

Net Profit

The Group's net profit for the year ended 31st December 2006 was approximately US\$22,656,000, representing an increase of approximately 13% compared with US\$20,030,000 in 2005.

Liquidity and Financial Resources

As at 31st December 2006, the Group had current assets of approximately US\$151,408,000 (2005: US\$64,897,000) while current liabilities of approximately US\$16,481,000 (2005: US\$10,322,000). The current ratio of the Group was approximately 919% (2005: 629%).

The Group finances its operation with internally generated resources. As at 31st December 2006, the Group had cash at bank and on hand of approximately US\$125,052,000 (2005: US\$43,610,000), and zero bank borrowings.

Management Discussion and Analysis

Net cash generated from operating activities for the year was approximately US\$21,009,000.

Net cash outflow to investing activities for the year was approximately US\$289,000 after the offset between the capital expenditure of approximately US\$5,389,000 in enhancement of production facilities in various divisions of the Group and the bank interest income of approximately US\$5,165,000.

Net cash inflow from financing activities for the year was approximately US\$60,402,000, representing the net proceeds from the international placing and public offer on the Company's initial listing on the Stock Exchange on 10th February 2006.

In general, the Group focused on core businesses and pursued long-term stable growth. Therefore, we adopted conservative principles in financial operation. Working capital can fully meet the demand of capital expenditures and there is no need for debit 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 expenditures.

Exchange Risk Exposure and Contingent Liabilities

The Group's sales were principally denominated in US dollars or Hong Kong dollars while purchases were also transacted mainly in US dollars, Renminbi, and Hong Kong dollars. The appreciation of Renminbi in 2006 did not materially affect the cost and operation of the Group in the year and the Group does not foresee significant risk in exchange rate fluctuation. Therefore, no financial instruments have been used for hedging purposes. The group will use forward exchange contracts for hedging purposes appropriately.

As at 31st December 2006, the Group had no significant contingent liabilities.

Capital Commitment

As at 31st December 2006, the capital commitment of Group was approximately US\$332,000 (2005: US\$42,000).

Employment, Training and Development

As at 31st December 2006, the Group had a total of 3,425 employees. A long term and stable human capital policy accommodated with fringe benefits, including medical insurance and provident fund, and competitive remuneration packages are adopted in order to attract, retain and motivate employees.

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

Management Discussion and Analysis

Outlook

Following the enhancement of production facilities in various business divisions of the Group by acquiring additional advanced machinery and precision equipment during the second half of the year ended 31st December 2006, the Group's production capability and market competitiveness were further enhanced. With these advanced machinery and equipment, the Group will be able to develop a variety of products, especially high-end components for digital single lens reflex cameras, in order to meet the needs of different customers.

Besides, the Group's major customers are optimistic about the business environment in 2007 and these well-known brand customers will continue to contract out the production process to outside manufacturers. All these are contributory factors to sustain the Group's continuous growth in business.

Looking forward to 2007, as worldwide DSC shipments are expected to grow beyond 100 million units together with a steady annual growth rate of more than 20% for the camera handsets and an increasing demand from emerging markets, the market size will continue to expand and the Group will eventually benefit from it. The Group's management is confident that the business will continue to grow in the future and generate better returns to our investors.

Final Dividend

The Board proposed a final dividend of HK\$0.123 per share to shareholders whose names appear on the Register of Shareholders of the Company on 8th June 2007. The final dividend will be paid around the end of June 2007.

Including the special interim dividend of HK\$0.047 per share paid to the shareholders on 20th July 2006, total dividend paid to the shareholders in respect of the year ended 31st December 2006 will be HK\$0.17 per share, bringing a dividend payout ratio of approximately 80%.