Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 2006, the Group was principally engaged in (i) the design and fabrication of precision metal stamping and plastic injection moulds; (ii) manufacturing of precision metal stamping and plastic injection components and (iii) lathing of metal components. A review of the Group's operations for the year ended 31 December 2006 by major business segments is as follows:

METAL DIVISION

During the year ended 31 December 2006, the overall turnover of the Group increased by 42.5% to approximately HK$691,240,000 as compared to that of approximately HK$485,023,000 for the year ended 31 December 2005. The rise in the Group's overall turnover for the year ended 31 December 2006 was mainly contributed by the continuous growth of the Group's long-established metal division, whose turnover increased by approximately HK$147,757,000, or 31.6% over that for the year ended 31 December 2005. During the year, the Group's metal division continued to focus on serving renowned Japanese office automation equipment manufacturers including Toshiba, Konica Minolta, Canon, Kyocera Mita, Fuji Xerox, Ricoh, Epson and Brother and sales to Japanese customers accounted for approximately 82.6% of the Group's total sales for the year ended 31 December 2006 (2005: 80.9%).

As a service provider to reputable manufacturers with international renowned brand names, management believes that the Group's business is strongly influenced by the characteristics of its major customer group. Management believes that the key characteristics of Japanese manufacturers, which are currently the Group's major customer group, include

Management Discussion and Analysis

(i) a strong emphasis on product quality, in particular for office automation equipment such as copiers and printers whose components require high precision standards to ensure the effective functioning of the equipment; (ii) emphasis on production efficiency to minimise production lead time and just-in-time inventory management and (iii) a strong involvement in the production process of its suppliers to ensure product quality and frequent mutual communications with a view to improving the production efficiency of its suppliers. To meet the stringent requirements of its customers, the Group has been following the Japanese style of management since the early stage of its establishment, which includes the implementation of the Japanese 7S management framework (Strategy; Structure; Systems; Style; Staff; Super-ordinate goals and Skills). Further, to manufacture components with high precision standards for its customers, the Group had invested in high quality equipment and a substantial portion of the Group's production machinery are first-tier equipment produced by international renowned brand names such as Aida, Sodick, Agie, Panasonic, Nomura, Sumitomo, and Mitsubishi. The Group also maintains a strong quality control team with a headcount of 213 employees and other engineers and technicians of 386 employees as at 31 December 2006.

Such investment in quality and production management has proven to be beneficial to the Group. During the year ended 31 December 2006, the sales of the Group's metal division to most of its major Japanese customers increased significantly. Apart from Japanese customers, the remaining 17.4% of sales of the Group's metal division was derived from reputable Hong Kong or international companies during the year ended 31 December 2006. To broaden its customer base, the Group will continue to source new customers. However, it is the policy of the Group to be selective in the sourcing of new customers and management will take into account a number of factors which include the pricing of products and credibility of potential customers in its decision making process.

PLASTIC DIVISION

The first production line of the Group's plastic division was established in late 2004. The Group decided to expand into plastic business because, while part of the office automation equipment manufactured by its customers is made of metal components, plastic components account for the remaining portion. Management believes that the expansion into plastic business will not only provide the momentum for the Group's future growth, but also enable the Group to provide a more comprehensive service to its customers and reduce the costs of its customers in logistic and quality control aspects that arise from their current practices to outsource the production of metal and plastic components to different suppliers.

During the year ended 31 December 2005, the Group's plastic division was under initial development stage and as such, turnover of the Group's plastic division only amounted to approximately HK$17,778,000 for the year ended 31 December 2005. During the year ended 31 December 2006, the Group's plastic division continued to develop and the Group had experienced an increase in orders from customers for plastic injection moulds and components. For the year ended 31 December 2006, turnover of the Group's plastic division amounted to approximately HK$76,238,000, representing an increase of approximately 328.8% as compared to that for the year ended 31 December 2005. Operating profit of the Group's plastic division for the year ended 31 December 2006 was approximately HK$12,876,000, as compared to an operating profit of approximately HK$665,000 for the year ended 31 December 2005.

Management Discussion and Analysis

HUMAN RESOURCES

As at 31 December 2006, the total number of employees of the Group was 2,991, representing a growth of 29.1% as compared to 2,316 employees as at 31 December 2005. The increase in headcount was primarily due to the overall expansion of the Group during the year ended 31 December 2006.

The Group considers its employees, in particular the skilled engineers and production management members, as its core assets since the Group's future success relies on the strengthening of its product quality and management on a continuing basis. Remuneration policy is reviewed regularly, taking into account the prevailing legal framework, market conditions and performance of the Group and individual staff. However, apart from providing attractive remuneration packages, management believes that the creation of a harmonious working environment suitable for the development of employees' potential is also important for attracting and retaining qualified staff for its future success, in particular in a business environment where shortage of labour exists. Various employee activities were organized to inspire the team spirit of the Group's staff, which includes the organization of company outings and sport activities in which the Group's employees, top management (including executive directors) and customers participated. Substantial resources were also devoted to improve the factory and dormitory environment of the Group with a view to providing an attractive working and living environment for the Group's employees.

FOREIGN CURRENCY EXPOSURE

A substantial portion of the Group's customers are reputable international manufacturers with worldwide distribution networks. At the same time, a majority of the Group's suppliers are international steel and plastic material producers designated by the Group's customers. Accordingly, most of the Group's sales and cost of sales are currently made in HK dollars and US dollars and only a portion of its sales and purchases are denominated in Renminbi. During the year ended 31 December 2006, approximately 42%, 54% and 4% (2005: 47%, 50% and 3%) of the Group's sales and approximately 29%, 58% and 13% (2005: 36%, 55% and 9%) of the Group's purchases were denominated in Hong Kong dollars, US dollars and Renminbi, respectively.

Management is aware of the potential foreign currency risk that may arise from the continuous appreciation of Renminbi by the PRC government. Although only a small portion of the Group's purchases are denominated in Renminbi currently, the Group has taken actions to manage its foreign currency exposure. In particular, despite the Group's substantial business operations in Mainland China, only 11.3% of its bank borrowings were denominated in Renminbi as at 31 December 2006. As at 31 December 2006, deposits denominated in Renminbi amounting to RMB26,500,000 were pledged for obtaining Hong Kong dollar loans of an equivalent amount, which effectively acted as a hedge against the appreciation of Renminbi. Management will evaluate the Group's foreign currency exposure on a continuing basis and take further actions to minimize the Group's exposure whenever necessary.

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FINANCIAL REVIEW

An analysis of the Group's turnover and results by segment is as follows:

By business segment

	2006 HK$'000	2006 %	2005 HK$'000	2005 %
Turnover				
Metal division				
Design and fabrication of metal stamping moulds	**72,476**	**10.5%**	62,544	12.9%
Manufacturing of metal stamping components and lathing products	**526,618**	**76.2%**	390,097	80.4%
Others *(Note 1)*	**15,908**	**2.3%**	14,604	3.0%
	615,002		467,245	
Plastic division				
Design and fabrication of plastic injection moulds	**14,833**	**2.1%**	9,433	2.0%
Manufacturing of plastic injection components	**61,363**	**8.9%**	8,345	1.7%
Others *(Note 1)*	**42**	**–**	–	–
	76,238		17,778	
Total	**691,240**		485,023	
Segment results				
Metal division	**116,032**		98,848	
Plastic division	**12,876**		665	
Operating profit	**128,908**		99,513	
Unallocated expenses	**(145)**		(539)	
Finance income	**1,094**		591	
Finance costs	**(9,646)**		(6,672)	
Income tax expenses	**(11,562)**			
Profit attributable to equity holders of the Company	**108,649**		83,215	

Note 1: Others mainly represented sales of scrap materials

Management Discussion and Analysis

Turnover

Metal division

The increase in turnover of the Group's metal division by 31.6% from approximately HK$467,245,000 for the year ended 31 December 2005 to approximately HK$615,002,000 for the year ended 31 December 2006 was primarily driven by the increase in revenue generated from manufacturing of metal stamping components and lathing products. With the continuous development of the Group's production management and its reputation among prominent international manufacturers, the Group experienced an increase in sale orders from its existing customers during the year ended 31 December 2006. Those customers which only provided sale orders to the Group on a trial basis previously also started to provide large scale orders to the Group, which contributed to the significant increase in revenue generated from manufacturing of metal stamping components and lathing products during the year ended 31 December 2006.

Plastic division

The Group's plastic division only commenced commercial operations during the year ended 31 December 2005. As a newly established division, revenue generated by the Group's plastic division only constituted approximately 3.7% of the Group's total turnover during the year ended 31 December 2005. During the year ended 31 December 2006, the Group's plastic division continued to develop and the Group had experienced an increase in orders from customers for plastic injection moulds and components. For the year ended 31 December 2006, turnover of the Group's plastic division amounted to approximately HK$76,238,000, representing an increase of approximately 328.8% as compared to that for the year ended 31 December 2005.

Gross profit

The Group achieved a gross profit of approximately HK$221,019,000 for the year ended 31 December 2006, representing an increase of 37.3% as compared to that for the year ended 31 December 2005. Gross profit margin for the year ended 31 December 2006 was approximately 32.0%, which decreased as compared to that of 33.2% for the year ended 31 December 2005. The decrease in gross profit margin was primarily caused by the change in product mix. During the year ended 31 December 2006, the Group's revenue from the manufacture of metal stamping and plastic injection components and lathing products increased significantly by 47.6% and its proportion to total turnover increased slightly from approximately 82.1% for the year ended 31 December 2005 to approximately 85.1% for the year ended 31 December 2006. At the same time, with the significant increase in revenue from the manufacture of metal stamping and plastic injection components and lathing products, the proportion of revenue from design and fabrication of metal stamping and plastic injection moulds to total turnover was slightly diluted from 14.9% for the year ended 31 December 2005 to 12.6% for the year ended 31 December 2006 although its amount increased by approximately 21.3% from approximately HK$71,977,000 for the year ended 31 December 2005 to approximately HK$87,309,000 for the year ended 31 December 2006. Since the gross profit margin from the manufacture of components and lathing products is generally lower than that from design and fabrication of moulds, the significant increase in revenue from the manufacture of metal stamping and plastic injection components and lathing products had diluted the Group's overall gross profit margin for the year ended 31 December 2006.

Management Discussion and Analysis

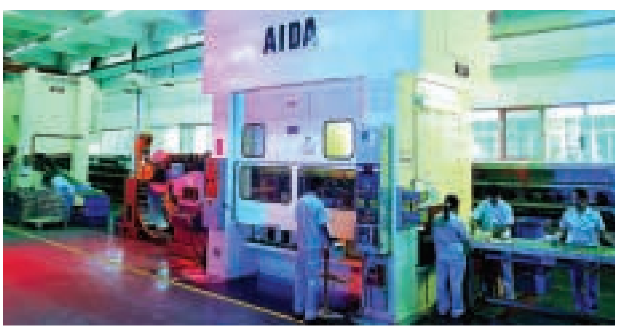
Segment results

For the year ended 31 December 2006, segment result of the Group's metal division amounted to approximately HK$116,032,000, representing a 17.4% increase as compared to that of approximately HK$98,848,000 for the year ended 31 December 2005. This increase was primarily brought by the surge of turnover of the Group's metal division during the year. The operating profit margin of the Group's metal division for the year ended 31 December 2006 was approximately 18.9%, which decreased by approximately 2% as compared to that of approximately 21.2% for the year ended 31 December 2005. The slight decrease in operating profit margin of the Group's metal division was primarily caused by (i) the dilution of the Group's overall gross profit margin as a result of the significant increase in revenue from the manufacture of metal stamping components and lathing products as described above; (ii) employee share options expenses of approximately HK$3,188,000 which were related to employee share options granted during the year ended 31 December 2006 (2005: Nil); and (iii) initial loss incurred by the Group's new Suzhou production base amounting to approximately HK$2,951,000 during its initial development stage in 2006.

Segment result of the Group's plastic division for the year ended 31 December 2006 was approximately HK$12,876,000, which increased by approximately 18.4 times as compared to that of approximately HK$665,000 for the year ended 31 December 2005. Operating profit margin of the Group's plastic division for the year ended 31 December 2006 was approximately 16.9%, which increased significantly as compared to that of approximately 3.7% for the year ended 31 December 2005. During the year ended 31 December 2005, the Group's plastic division was only under initial development stage whilst in 2006, the Group's plastic division started to obtain large scale orders from its customers and therefore the Group's plastic division benefited from economy of scale which improved its operating profit margin.

Finance costs

The Group's finance costs for the year ended 31 December 2006 amounted to approximately HK$9,646,000, which increased by approximately 44.6% as compared to that of approximately HK$6,672,000 for the year ended 31 December 2005. During the year ended 31 December 2006, the Group's capital expenditure amounted to approximately HK$217,239,000, representing an increase of approximately 98.1% as compared to that of approximately HK$109,638,000 for the year ended 31 December 2005. As such, the average loan balances utilised by the Group during the year ended 31 December 2006 increased with a view to financing the increased capital expenditure and as such, the Group's finance costs for the year ended 31 December 2006 increased as compared to that for the year ended 31 December 2005.



Management Discussion and Analysis

Income tax expenses

During the year ended 31 December 2006, income tax expenses amounted to approximately HK$11,562,000. Effective tax rate (defined as the percentage of income tax expenses as compared to profit before income tax) for the year ended 31 December 2006 was approximately 9.6%, which decreased as compared to that of approximately 10.4% for the year ended 31 December 2005. During the year ended 31 December 2006, Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., the principal subsidiary for the Group's plastic business, was exempted from PRC enterprise income tax. Since the profit recorded by Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. during the year ended 31 December 2006 increased significantly as a result of the improvement in the performance of the Group's plastic division, the Group's overall effective tax rate was diluted from approximately 10.4% for the year ended 31 December 2005 to approximately 9.6% for the year ended 31 December 2006.

Profit attributable to equity holders of the Company

During the year ended 31 December 2006, profit attributable to equity holders of the Company amounted to approximately HK$108,649,000, which increased by approximately 30.6% as compared to approximately HK$83,215,000 for the year ended 31 December 2005. Net profit margin of the Group for the year ended 31 December 2006 was approximately 15.7%, which decreased as compared to that of 17.2% for the year ended 31 December 2005. The 1.5% decrease in net profit margin of the Group was mainly caused by (i) the change in product mix of the Group and the decrease in the proportion of revenue from design and fabrication of metal stamping and plastic injection moulds to total turnover which diluted the Group's overall gross profit margin; (ii) employee share options expenses of approximately HK$3,188,000 which were related to employee share options granted during the year ended 31 December 2006 (2005: Nil); and (iii) initial loss incurred by the Group's new Suzhou production base amounting to approximately HK$2,951,000 during its initial development stage in 2006.

By geographical location

	For the year ended 31 December		For the six months ended 30 June *(Note 1)*	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Turnover				
Shenzhen operations	**669,869**	485,023	**283,745**	199,764
Suzhou operations	**21,371**	–	**–**	–
	691,240	485,023	**283,745**	199,764
Profit attribution to equity holders of the Company				
Shenzhen operations	**111,600**	83,215	**43,838**	30,884
Suzhou operations	**(2,951)**	–	**(3,419)**	–
	108,649	83,215	**40,419**	30,884

Note 1: Financial figures for the six months ended 30 June 2005 and 2006 were extracted from the Group's unaudited interim report dated 14 September 2006.

Management Discussion and Analysis

As indicated above, a substantial portion of the Group's turnover for the year ended 31 December 2006 was still derived from the Group's existing Shenzhen production plant since the construction of the Group's new Suzhou production plant was only completed in mid 2006. The new Suzhou production plant was under construction in the first half of 2006 and incurred initial set up costs of approximately HK$3,419,000 during the six months ended 30 June 2006. In the second half of 2006, the Group's new Suzhou production plant commenced commercial production and started to generate revenue thereafter. Although the new Suzhou production plant was still under initial development stage in the latter half of 2006, it generated turnover of approximately HK$21,371,000 and net profit of approximately HK$468,000 during that period. As such, the Group's new Suzhou production plant managed to reduce its accumulated loss from approximately HK$3,419,000 for the six months ended 30 June 2006 to approximately HK$2,951,000 for the entire year ended 31 December 2006.

LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

For the year ended 31 December 2006, the Group recorded net cash generated from operating activities amounting to approximately HK$87,322,000, representing an increase of approximately 15.2% as compared to that of approximately HK$75,772,000 for the year ended 31 December 2005. The increase in net cash generated from operating activities was in line with the increase in the turnover and profit of the Group during the year ended 31 December 2006. Net cash used in investing activities which was primarily related to the purchases of fixed assets and amounted to approximately HK$175,742,000 for the year ended 31 December 2006, increased by approximately 89.1% as compared to that of approximately HK$92,952,000 for the year ended 31 December 2005 due to the continuous expansion of the Group's scale of operations. In addition, the Group recorded an increase in net cash generated from financing activities from approximately HK$34,222,000 for the year ended 31 December 2005 to approximately HK$108,381,000 for the year ended 31 December 2006 which was primarily caused by the receipt of the net proceeds from the Group's share placement of approximately HK$107,467,000 during the year.

Bank loans as at 31 December 2006 were denominated in Hong Kong dollars and Renminbi with fixed or floating interest rates and were used for financing the Group's operations and expansion. Treasury activities are controlled by senior management members with an objection of achieving a balance between the Group's expansion needs and its financial stability. An analysis of the Group's key liquidity and capital adequacy ratios as at 31 December 2006 is as follows:

	31 December 2006	31 December 2005
Inventory turnover days *(Note 1)*	**78**	67
Debtors' turnover days *(Note 2)*	**81**	73
Creditors' turnover days *(Note 3)*	**87**	85
Current ratio *(Note 4)*	**1.09**	1.02
Net debt-to-equity ratio *(Note 5)*	**0.27**	0.29

Management Discussion and Analysis

Note:

1. Calculation of inventory turnover days is based on the ending inventories divided by cost of sales and multiplied by the number of days during the year.

2. Calculation of debtors' turnover days is based on the ending balance of trade receivables divided by turnover and multiplied by the number of days during the year.

3. Calculation of creditors, turnover days is based on the ending balance of trade payables divided by cost of sales and multiplied by the number of days during the year.

4. Current ratio is calculated based on the Group's total current assets divided by total current liabilities.

5. Net debt-to-equity ratio is calculated based on the total balance of bank borrowings and finance lease liabilities less cash and bank balances divided by shareholders' equity.

Inventory turnover days

Inventory turnover days for the year ended 31 December 2006 increased to approximately 78 days as compared to that of approximately 67 days for the year ended 31 December 2005. The increase in inventory turnover days for the year ended 31 December 2006 was primarily due to the accumulation of inventories as at 31 December 2006 to cope with the expected increase in sales orders in 2007.

Debtors' and creditors' turnover days

Although the Group's scale of operations continued to expand, the Group was still able to settle its debtors' and creditors' balances within three months. As such, both of the Group's debtors' and creditors' turnover days for the year ended 31 December 2006 only increased slightly to approximately 81 days and 87 days respectively despite a 42.5% increase in the Group's turnover during the year.

Current ratio and net debt-to-equity ratio

During the year ended 31 December 2006, the Group received net proceeds from share placement amounting to approximately HK$107,467,000 which improved the Group's equity base during the year. Coupled with the continuous inflow of cash from operations, the Group's current ratio and net debt-to-equity ratio improved and changed from approximately 1.02 and 0.29 as at 31 December 2005 to approximately 1.09 and 0.27 as at 31 December 2006.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2006, the charges on the Group's assets included (i) pledge of bank deposits of approximately HK$33,245,000, of which approximately HK$26,377,000 were used for securing the Group's bank borrowings and HK$6,868,000 were pledged in favour of a contractor of construction work as deposits for construction costs; (ii) pledge of leasehold land and buildings located in Hong Kong with net book value of approximately HK$8,604,000 for securing bank borrowings; and (iii) mortgage of equipment under finance lease liabilities with net book value of HK$128,759,000 for securing finance lease liabilities.

Management Discussion and Analysis

OUTLOOK

During the year ended 31 December 2006, the Group had continued its plan to transform itself from a metal mould and component manufacturers to a fully integrated one-stop service provider. As part of the Group's expansion plan, the construction of phase one of the Group's Suzhou production plant was completed in mid 2006 and commercial operations commenced in the second half of 2006.

The Group's new Suzhou production plant will primarily focus on serving various Japanese and other multi-national manufacturers located in the Yangtze River Delta region. These Japanese and multi-national manufacturers are the target customers of the Group's new Suzhou production plant taking into account (i) their credibility; (ii) the potential scale of their future sale orders and (iii) the higher profitability which is likely to be obtained by serving multi-national manufacturers than small scale local manufacturers owing to more stringent quality and production requirements of Japanese and multi-national manufacturers. Taking into account the concentration of multi-national manufacturers in the Yangtze River Delta region, management sees great potential in this market and expects the new Suzhou production plant to provide strong momentum for the continuous growth of the Group in the future. However, management understands that a majority of multi-national manufacturers will be prudent in granting sale orders to new suppliers and trial periods are normally required for multi-national manufacturers to observe the production capability and quality standards of potential suppliers. As such, at its initial stage of operations, the Group's new Suzhou production plant will primarily focus on tapping potential business from the Group's existing customers with production plants located in the Yangtze River Delta region which include (i) Konica Minolta in Wuxi; Canon in Suzhou and Fuji Xerox and Ricoh in Shanghai because the Group's reputation had already been strongly established among these existing Japanese customers. The Group's new Suzhou production plant will strive to expand and obtain business from other reputable multi-national manufacturers at the later stage. Under the current business model of the Group, the Group's customers normally require the Group to design and manufacture the relevant moulds prior to the mass production of metal stamping and plastic injection components. The completed moulds will be consigned in the Group's production plants for the subsequent production of metal stamping and plastic injection components. In the second half of 2006, the Group's new Suzhou production plant had generated turnover of approximately HK$21,371,000, of which approximately 56.2% was related to the design and manufacture of moulds. The moulds manufactured by the Suzhou production plant during the latter half of 2006 will be used for the mass production of metal stamping and plastic injection components for the year ending 31 December 2007.

Taking into account the huge potentials for the Group's business in the Yangtze River Delta region and the continuous transfer of high end production processes by the Group's customers from overseas countries to China, the construction of phase two of the Group's Suzhou production plant with a construction area of approximately 59,000 square metres is expected to commence in the second half of 2007, with completion targeted for the second half of 2008.

As part of the Group's plan to transform itself to a fully integrated one-stop service provider, the Group had continued to expand the production capacity of its plastic division during the year ended 31 December 2006. The Group decided to expand its plastic business because, while part of the office automation equipment manufactured by its customers is made of metal components, plastic components account for the remaining portion. With the continuous expansion of the Group's plastic production lines, turnover generated by the Group's plastic division during the year ended 31 December 2006 increased by approximately 328.8% to approximately HK$76,238,000, as compared to the turnover of approximately HK$17,778,000 for the year ended 31 December 2005.

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The Group's customers normally require the Group to design and manufacture the relevant moulds prior to the mass production of metal stamping and plastic injection components. Accordingly, the manufacturing capability and quality standards for the production of moulds are crucial determinants for securing large-scale sale orders from customers for the subsequent production of metal stamping and plastic injection components, in particular under the current trend that the Group's customers will update their product models on a more frequent basis and accordingly require their suppliers to manufacture the relevant moulds within a shorter period of time. With a view to increasing the Group's production capacity of moulds, the Group is in the process of establishing a mould research and development centre in Shenzhen. The construction of the mould research and development centre has commenced in September 2006 and is expected to be completed in the latter half of 2007. With an expanded mould production capability, the Group will not only be able to obtain more orders under its existing business model but an expanded mould production capability will also enable the Group to produce and sell moulds on a standalone basis to customers who retain production plants in overseas countries.

The Group's existing Shenzhen production plant is located in the eastern bank of the Pearl River Delta region. With a view to better serving the Group's existing customers and developing businesses from new customers located in the western bank of the Pearl River Delta region, the Group currently plans to establish a new production plant in Zhongshan, Guangdong Province, the PRC. The construction of the new Zhongshan production plant with a construction area of approximately 33,000 square metres is expected to commence in mid 2007, with completion targeted for mid 2008. At its initial stage of operations, the Group's new Zhongshan production plant will primarily focus on serving existing customers located in the western bank of the Pearl River Delta region, in particular Canon's production plants in Zhongshan and Zhuhai which are principally engaged in the assembly of laser beam printers and are presently served by the Group's existing production plant in Shenzhen. The establishment of a new production plant in Zhongshan which is in the proximity of the Group's customers located in the western bank of the Pearl River Delta region will not only reduce the transportation costs of the Group and its customers, but can also strengthen the Group's business relationship with its existing customers which will finally translate into larger business volume for the Group. Further, with the production plant in Zhongshan taking up certain customers located in the western bank of the Pearl River Delta region, the Group's existing Shenzhen production plant can spare production capacity for handling the booming orders from other existing customers located in the eastern bank of the Pearl River Delta region. At a later stage of its operations, the Group's Zhongshan production plant will also strive to develop new customers located in the western bank of the Pearl River Delta region.

Currently the Group primarily serves as a mould and component supplier to reputable Japanese manufacturers engaging in the production of office automation equipment which includes copiers and printers. Taking into account (i) the Group primarily focused on the production of metal stamping moulds and components previously with other business opportunities relating to the office automation equipment market, which include the manufacture of relevant plastic injection components and moulds and the provision of assembly services to office automation equipment manufacturers, remained relatively unexplored and (ii) outsourcing by Japanese manufacturers to non-Japanese suppliers is still fairly new with a majority of the components used by the Group's customers still being manufactured by suppliers with

Management Discussion and Analysis

Japanese background, management believes that there are still ample opportunities for the continuous expansion of the Group in the office automation equipment market. However, at the same time, the Group continuously searches for other growth opportunities and, as part of such exploration, the Group successfully passed the TS16949:2002 accreditation, an international quality accreditation for the manufacture of automobile parts, in 2006 and the Group had started to obtain small scale orders for the production of automobile parts on trial basis. However, taking into consideration (i) there are still ample opportunities for the expansion of the Group in the existing office automation equipment market and (ii) the substantial time that may be required for the successful establishment of solid business relationship with reputable automobile manufacturers, management will continue to focus a majority of its resources in the office automation equipment market and expects a substantial portion of its customer orders will continue to come from office automation equipment manufacturers in near future.

APPLICATION OF LISTING PROCEEDS

The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 11 May 2005. The net proceeds from listing amounted to approximately HK$125,080,000 and as at 3 April 2007, the Group had applied the listing proceeds as follows:

	Planned as per prospectus dated 29 April 2005 HK$	**Actual application as at 3 April 2007** HK$
Purchases of machinery and equipment for the manufacture of plastic injection moulds and plastic injection components	32 million	32 million
Purchases of additional stamping machines for the manufacture of metal stamping components	25 million	25 million
Establishment of a mould research and development centre	35 million	13 million
Repayment of bank loans	30 million	30 million
General working capital of the Group	3 million	3 million
	125 million	103 million

The unutilised proceeds from listing of approximately HK$22 million are related to the establishment of a mould research and development centre. The mould research and development centre is currently under construction and the Company will continue to use the remaining HK$22 million for its establishment as stated in the Prospectus. Such remaining proceeds are currently placed on short-term deposits.

Management Discussion and Analysis

SHARE PLACEMENT

On 28 February 2006, Prosper Empire Limited entered into a placing agreement pursuant to which Prosper Empire Limited agreed to place 80,000,000 existing ordinary shares with an aggregate nominal value of HK$8,000,000 owned by Prosper Empire Limited at a price of HK$1.38 per share to not less than six independent investors. The placing price represented (i) a discount of approximately 7.38% to the closing price of HK$1.49 per share as quoted on The Stock Exchange of Hong Kong Limited on 23 February 2006, being the last trading day before the terms of the relevant transactions were fixed and (ii) a discount of approximately 7.63% to the average closing price of the shares of approximately HK$1.494 per share over the last five consecutive trading days up to and including 23 February 2006. On the same day, Prosper Empire Limited entered into a subscription agreement with the Company for the subscription of 80,000,000 new ordinary share with an aggregate nominal value of HK$8,000,000 at HK$1.38 which is equivalent to the placing price. The net subscription price, after deducting the costs of the relevant transactions, amounted to approximately HK$1.34 per share. The placing shares represented approximately 15.38% of the then existing issued share capital of the Company and approximately 13.33% of the Company's issued share capital as enlarged by the subscription and the consequent issuance of 80,000,000 new shares. The relevant transactions are completed in March 2006 and the net proceeds of approximately HK$107,467,000 were received by the Company in March 2006.

The purpose of the share issue through the above-mentioned placing and subscription is to expand the production capacity of the Group and the net proceeds of HK$107,467,000 are intended to be utilised as to approximately HK$92,000,000 for the acquisition of new machineries and as to approximately HK$15,467,000 for general working capital purposes. Up to the date of this report, all of such net proceeds had been utilised for the afore-mentioned purposes.