Management Discussion and Analysis

INDUSTRY REVIEW

Printed circuit boards, including FPC and PCB, are one of the fundamental components found in most electronic products such as mobile phones, digital cameras, computer products and consumer electronics products. To accommodate miniaturisation and increasing number of components of electronic devices, the FPC and PCB require finer circuitry and more layer count. The industry continued to grow in 2006 but competition has also intensified and many market players have expanded their production capacity.

More and more FPC and PCB facilities are being established in China and FPC and PCB solution providers in China are becoming more competitive in the world.

BUSINESS/OPERATION REVIEW

The Company's principal activity is investment holdings whilst its subsidiaries are mainly engaged in manufacturing and trading of printed circuit boards.

During the financial year of 2006, the Group recorded a total turnover of approximately US$315.5 million, an increase of 78.4% from 2005. Turnover of FPCA, PCBA, FPC and PCB grew by 67.1%, 494.1%, 12.3% and 38.5% respectively. The increase in turnover from FPCA was mainly attributable to an increase in the number of orders from existing customers as well as an increase in unit price. In addition, for FPC solutions, the customers developed in 2005 have continually contributed to the Group's turnover. The increase in turnover from PCB was mainly attributable to an increase in the demand from existing customers and an increase in the sales of new products (HDI boards and automobile circuit boards). The significant growth of turnover from PCBA was attributable to new customers developed by Forever Jade (Suzhou), which was established during the year, in the assembly of finished products. Net profits for the year amounted to approximately US$12.4 million (2005: US$14.2 million).

FINANCIAL REVIEW

For the financial year ended 31 December 2006, the Group recorded a turnover of approximately US$315.5 million and profit for the year of approximately US$12.4 million as compared to a turnover of approximately US$176.9 million and profit of approximately US$14.2 million for the year ended 31 December 2005, representing an increase of approximately 78.4% and a decrease of approximately 12.7% respectively. Earning per share was approximately US1.0 cents (2005: approximately US1.3 cents) and net assets per share of the Company was approximately US9.4 cents (2005: approximately US8.4 cents).

Management Discussion and Analysis

Turnover

The turnover of the Group for the year ended 31 December 2006 and the comparative figures of 2005 classified by categories of the major products are set out below:

Turnover by operations

	2006		2005		**Change**
	US$'000	**%**	US$'000	%	**%**
FPC solutions					
FPCA	**165,564**	**52.5**	99,081	56.0	67.1
FPC	**19,146**	**6.0**	17,054	9.6	12.3
Total FPC solutions	**184,710**	**58.5**	116,135	65.6	59.0
PCB solutions					
PCBA	**60,856**	**19.3**	10,243	5.8	494.1
PCB	**69,971**	**22.2**	50,522	28.6	38.5
Total PCB solutions	**130,827**	**41.5**	60,765	34.4	115.3
Total	**315,537**	**100.0**	176,900	100.0	78.4

The Group's turnover was mainly derived from sales of FPC solutions and PCB solutions. With reference to the above table, turnover from sales of FPC solutions and sales of PCB solutions for the year ended 31 December 2006 were approximately US$184.7 million and US$130.8 million (2005: US$116.1 million and US$60.8 million) respectively, representing approximately 58.5% and approximately 41.5% of the total sales of the Group (2005: 65.6% and 34.4%) respectively.

The increase of 59.0% in sales of FPC solutions in 2006 was mainly due to the increasing orders received from MOTOROLA, a major customer of the Group, during this year, and the business growth during the year of the new customers successively developed by the Group in recent years. The Directors believe that an increase in the number of customers can reduce the Group's reliance on a single customer in this respect.

On the other hand, the sales of PCB and PCBA have increased by approximately 38.5% and 494.1% respectively in 2006. The increase in the turnover from PCB was primarily due to the significant increase in demand from existing customers. The increased demand mainly represents the products used in computer peripherals, telecommunication equipments and motor vehicles. In addition, the increase in the turnover from PCBA was mainly attributable to the development of the market by Forever Jade (Suzhou) established in 2006. The increase mainly represents modules and supporting finished products for mobile phone and digital camera products.

Management Discussion and Analysis

Gross profits margin by operations

	2006	2005
	%	%
FPC solutions		
FPCA	**17.4**	22.9
FPC	**4.4**	8.8
PCB solutions		
PCBA	**4.9**	8.8
PCB	**5.6**	4.6
Total	**11.6**	15.5

The Group's gross profit increased from approximately US$27.5 million for the year ended 31 December 2005 to approximately US$36.5 million for the year ended 31 December 2006. The increase in gross profit was primarily due to an increase in the overall turnover, particularly FPCA with a higher gross profit margin whose turnover increased by US$66,482,604.

However, the overall gross profit margin declined from approximately 15.5% for the year ended 31 December 2005 to approximately 11.6% for the year ended 31 December 2006. For FPCA, FPC and PCBA, the gross profit margin dropped respectively from 22.9%, 8.8% and 8.8% in the previous year to 17.4%, 4.4% and 4.9% this year. The decrease in the gross profit margin from FPCA was mainly due to an increase in overall raw material costs as a result of higher product component costs. The decrease in the gross profit margin from FPC products was mainly due to a decline in the gross profit margin from products with multiple fine lines because of the increasing scrap rate of the new products which have been subject to limitations of the Group's facilities and product quality. The decrease in the gross profit margin from PCBA products was mainly due to the increase of the price and quantities of assembled products this year whose raw materials were mostly high-priced components designated and born by customers with similar level of assembly fee since there is not much added value for processing. The Directors believe that the gross profit margin will increase when it attains scale of economy in the business volume over the coming year.

Operating expenses

Distribution costs for the year ended 31 December 2006 increased by 122.4% to approximately US$7.7 million, as compared to that of approximately US$3.4 million for the year ended 31 December 2005. The increase in distribution costs was primarily due to the relative increase in commission expenses as a result of an increase in domestic sales, and a significant increase in transportation costs during the year as a result of a continued rise in oil prices and an increase in the sales of the Group during the year. The other items comprising the distribution costs were in line with the level of turnover.

Management Discussion and Analysis

The administrative expenses for the year ended 31 December 2006 increased by approximately 64.7% to approximately US$11.6 million as compared to that of approximately US$7.1 million for the year ended 31 December 2005. The significant increase was mainly due to the write down of account receivables overly aged in accordance with the Group's accounting policy and an increase in staff costs as a result of an increase in the number of administrative staff during the year. In addition, as a result of the appreciation of RMB against the US dollar during the year, the Group suffered a greater exchange loss from its sales transaction in the year of 2006 than last year.

Finance costs of the Group for the year ended 31 December 2006 increased by 104.7% to approximately US$6.2 million, as compared to that of approximately US$3.0 million for the year ended 31 December 2005. The increase in finance costs was mainly due to an increase in borrowings and rises in interest rates during the year.

Liquidity and financial resources

The Group had shareholders' funds of approximately US$117.5 million as at 31 December 2006 and approximately US$104.7 million as at 31 December 2005. Current assets amounted to approximately US$252.5 million mainly comprising bank balances and cash of approximately US$46.8 million, pledged bank deposits of approximately US$13.5 million, inventories of approximately US$48.6 million and trade receivables of approximately US$129.1 million. Current liabilities amounted to approximately US$218.3 million mainly comprising bank loans of approximately US$114.7 million and trade payables of approximately US$91.2 million. Non-current liabilities only include long term bank loan amounting to approximately US$3.8 million.

As at 31 December 2006, the Group's current ratio was 1.2 (2005: 1.3) and the gearing ratio (a ratio of total loans to total assets) was 34.9% (2005: 35.6%).

As at 31 December 2006, the Group's bank loan balance was about US$118.5 million, all loans were fixed rate borrowings which carried interest ranging from 3.13% to 6.9% per annum.

Foreign currency exchange risk

Most assets and liabilities of the Group and the Group's sales and purchases were denominated in US dollar and RMB. The sales in US dollar and RMB represented approximately 82% and 18% respectively for the year ended 31 December 2006 (2005: 68% and 32%). The purchases in US dollar and RMB represented approximately 69% and 31% respectively for the year ended 31 December 2006 (2005: 59% and 41%). The sales and purchases in US dollar substantially hedged the risks of transactions in foreign currency and the Group did not make any other hedging arrangement in the two years ended 31 December 2006. Although the exchange loss recognized in administrative expenses increased during the year, it only represented approximately 0.4% of the total turnover during the year of 2006.

SEGMENTAL INFORMATION

As at 31 December 2006, detail segmental information of the Group is set out in note 6 to the financial statements.

Management Discussion and Analysis

EMPLOYEE BENEFITS

For the year ended 31 December 2006, average number of employees was approximately 7,600 (2005: approximately 5,700). The increase of the number of employees is mainly due to the recruitment for operation of Forever Jade (Suzhou) which has commended since June 2006. For the year ended 31 December 2006, the Group's staff costs (excluding Directors' fees and emoluments) amounted to approximately US$25.2 million (2005: US$18.7 million). The remuneration policy of the Group is reviewed annually and is in line with the prevailing market practice. During the year under review, the Company has not granted any share options to its employees or Directors under the share option scheme of the Company adopted on 5 July 2005.

The employees of the Company's subsidiaries in the PRC are members of a state-managed social welfare scheme operated by the local government of the PRC. Under the scheme, the Group provides retirement, medical, occupational injury, unemployment and maternity benefits to its employees in the PRC in accordance with the relevant PRC rules and regulations. The Group is required to contribute a specified percentage of their payroll costs to the social welfare scheme to fund the benefits. The only obligation of the Group with respect to the social welfare scheme is to make the specified contributions. During the year under review, the Group contributed approximately US$1.2 million (2005: US$1.9 million) to the scheme.

MATERIAL ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENT

For the year ended 31 December 2006, the Group did not have any material acquisition and sale of subsidiaries and associated companies.

CHARGE ON ASSETS

As at 31 December 2006, pledges of the Group's properties, trade receivable, bank deposits and prepaid lease payment amounted to approximately US$16.9 million, US$49.5 million, US$13.5 million and US$0.2 million respectively (2005: US$31.7 million, US$7.2 million, US$28.6 million and US$0.3 million) to secure bank borrowings.

Management Discussion and Analysis

CONNECTED TRANSACTIONS

During the year, the Group had the following connected and continuing connected transactions:

Acquisition of equipment from Vertex Precision Electronics Inc.

As announced by the Company on 11 October 2006,Vertex Precision Electronics Inc. ("Vertex"), the controlling shareholder of the Company, entered into an agreement with Global Technology International Limited ("GTI"), a direct wholly-owned subsidiary of the Company on 29 September 2006 pursuant to which Vertex agreed to sell and GTI agreed to pruchase machinery and equipment for production of 4 to 6 layers PCBs for cars, mobile phones, computer peripheral and telecommunication products for a consideration of approximately US$1.8 million. Up to the end of the year, the transaction is not yet completed. According to the extension agreement signed between the parties on 15 December 2006, the transaction shall be completed on or before 31 August 2007.

Lease of apartments by Mr. Hsu Chung and Mr. Lin Cheng Hung to the Group

Global Flex (Suzhou), an indirect wholly-owned subsidiary of the Company, entered into three tenancy agreements with Mr. Hsu Chung, an executive Director, in August and September 2005 pursuant to which Mr. Hsu Chung leased to Global Flex (Suzhou) three apartments situated in Suzhou. These apartments are used as staff quarters of the Group in Suzhou. During the year, the total rental paid to Mr. Hsu Chung for these three apartments amounted to US$20,554. (2005: US$18,089).

In addition, Global Flex (Suzhou) also entered into a tenancy agreement with Mr. Lin Cheng Hung ("Mr. Lin"), an executive Director, on 1 January 2006 pursuant to which Mr. Lin leased to Global Flex (Suzhou) an apartment situated in Suzhou. The apartment is used as staff quarter of the Group in Suzhou. During the year, the total rental paid to Mr. Lin for the apartment amounted to US$7,684 (2005: Nil).

Except for the above, no other continuing connected transactions occurred during the year under review.

The independent non-executive Directors confirm that the transactions have been entered into by the Group in the ordinary course of its business on normal commercial terms, and in accordance with the terms of the respective agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group or the Company did not have any significant contingent liabilities (2005: Nil).

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PROSPECTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As a result of the research and development undertaken by the Group on the production technology of FPC products as well as the acquisition of new facilities and equipment during the year, the quality and production volume of FPC with fine line have increased substantially. The fine line products represent products having under 0.003" line spacing. It mainly used in LCD, camera modules and harddisk. This would be quite beneficial to the Group's technical competitiveness as well as product and customer diversification. The Group expects the market demand for fine line and spacing of FPC to increase in the coming years.

With the commencement of the operation of Forever Jade (Suzhou) in June 2006, the Group has expanded its scope of operation to the assembly of electronic component modules and supporting finished products, with an aim to expand the Group's one-stop services offered to its existing and new customers. The major products assembled by Forever Jade (Suzhou) include modules and supporting finished products for mobile phones, digital cameras and switches. It is anticipated that it will contribute considerably to the Group's profits when it attains scale of economy in the coming year.

A newly constructed plant of another wholly owned subsidiary of the Company, Global Flex (Suzhou) Plant II, is close to completion. For more effective plant planning, it is intended that all PCB facilities of Global Flex (Suzhou) will be transferred to Global Flex (Suzhou) Plant II. Global Flex (Suzhou) will mainly focus on the production of FPC solution products while Global Flex (Suzhou) Plant II will be engaged in the production of PCB products. With more procurement of better equipment and facilities, Global Flex (Suzhou) Plant II will be able to manufacture PCB products of a higher level in terms of both quality and quantity. To make more effective use of the funds, up to the moment, Global Flex (Suzhou) Plant II has not started to purchase any new facilities. To ensure the stability of orders and upgrade its technologies, the Group does not rule out the possibility of seeking strategic partners for cooperation.