

# Chief Executive Officer's Review

Dear Shareholders,

I am delighted to report that the Group's operational results reached new heights this year, which started to reflect the benefits of our economies of scale, product optimisation and professional management.

The long term development objectives of the Group are: to continue in optimizing the advantage of vertical integration of upstream and downstream industry, to maintain our position as the leading manufacturer in the bare copper wire product industry, to become a leading magnet wire enterprise in the PRC, and to earn even more profit. In 2006, the Group has formulated and implemented practical strategies for production and sales, which enhanced our profitability and earned a higher return for the shareholders.

During 2006, copper price in the world and in the PRC as well rose sharply, which has driven the raw material cost of the copper wire and cable industry higher. With the PRC's economy maintaining a rapid growth rate of 10.7%, there was a strong domestic demand for consumer electronic products. Being the major manufacturing center for electrical equipment and appliances, the Pearl River Delta region needs to import a large volume of bare copper wire and magnet wire product. The Group has captured such opportunity proactively and secured its leading position in the market through expanding market share by means of making further investment and installing additional production lines.

The Group adopted the following strategies and measures to develop our business operation.

- **Increase production capacity and output in order to benefit from the economy of scale**

The Group's newly added second phase of magnet wire production plant commenced production in 2005, and our annual capacity of magnet wire has reached 50,000 tonnes by the second half of 2006. As our capacity increased, our output also increased. Our magnet wire production in 2006 increased about 35.12% over 2005, while our bare copper wire production in 2006 increased about 10.60% from 2005.

Leveraging on the valuable experience and expertise of the management, the Group will continue in modifying its facilities, increasing production capacity of its facilities, enhancing production efficiency and saving production cost to achieve a high standard of efficiency in its production and operation.

With a promising prospect of the bare copper wire and magnet wire market, the Group is confident in capturing such huge opportunity, and aims at a capacity utilisation rate of 100% and sale of all volume produced in order to benefit from the economy of scale.

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- **Optimize product mix and increase the proportion of high value added products to earn higher profit**

In recent years, the Group has focused on increasing the business of its high value added products. Our production technology and product quality of such products has matured and its proportion in our total production gradually increased. The high value added products of magnet wire has accounted for about 30% of our production in recent years. They are hi-tech products mainly used in products with promising market potential such as vehicle motors and air con compressors. It has secured many renowned customers in and outside the PRC for such products. Focusing on high value added products is the main contributor to the Group's profit growth in 2006.

- **Consider and satisfy the need for environmental friendly products and environmental certification for products, and thus expand our customer base**

Basically, all our magnet wire products have passed the UL certification and SSGS test. We also obtained Sony's Green Partner certificate in 2006. Through the above measures, our products meet the need for environmental protection and this has great effect in securing and expanding our customer base.

## Major Plan for 2007

2007 is the second year in the "11th Five-Year Plan" for the development of the PRC's economy, and industries and products which would use bare copper wire and magnet wire will have good development. Such industries and products include electrical equipment and machineries and electronic information products, and heavy industries, automobile industry and precise industry astronautic industry. On this background, the Group will further adopt production and sales strategies, continue to raise its utilization rate to achieve full use of capacity and full sale of output, further adjust the proportion of domestic and overseas sales and processing services, and also further optimizing product mix to increase its income.

In order to further solidify the Group's position in the copper wire industry and to capture the expected business opportunities, the directors currently intend to implement the following future plans:

- **Continue to take the advantage in vertical integration and expand into other products in the industry**

Over the years, the vertical integration of the Group's business structure has proven its benefits to the Group - it allows the Group to secure a stable supply of the requisite high quality principal raw material for its magnet wire production. The proximity of the two production plants also allows the Group to save transportation and storage cost and to improve the Group's overall production efficiency. Such vertical integration will continue to be the Group's focus in its future plans. With its experience gained in the bare copper wire and magnet wire industries, the Group is well equipped to capture other business opportunities in relation to other products in the industry.

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- **Strengthen the Group's research and development**

One of the major tasks that the Group's research and development team needs to accomplish is to formulate plans or strategies whereby the Group can increase its production capability with its present resources and develop new production technique to improve the quality of the products. During the past few years, the team has successfully increased the annual production capacity of the Group. Currently, the Group's annual production capacity reaches 150,000 tonnes of bare copper wire and 50,000 tonnes magnet wire. The Group plans, with the enhanced production technology, to increase further its production capacity and to improve the quality of its products.

- **Expand through upgrading of existing production facilities, acquisition of new production facilities and/or merger and acquisitions**

In order to capture the expected growth of the demand for bare copper wire and magnet wire as a result of the expected growth of the manufacturing sector in the PRC, it is the intention of the management of the Group in the medium term to expand further the production capacity of the Group through upgrading of existing production facilities, acquisition of new production facilities related businesses.

The management of the Group has full confident in the prospect of the Group, and will continue to adopt an active expansion strategy in order to increase the Group's market share and solidify its leading role in the world and the PRC market. The Group is committed to become one of the top copper manufacturers in the PRC and create remarkable return for its shareholders.

## Appreciation

On behalf of the management, I would like to express my sincere gratitude to the government authorities, clients, suppliers and business associates for their support, and to our management team and staff for their loyalty, which form a sound foundation for our steady growth and outstanding results. I would also like to express my immense appreciation to our shareholders and friends from the financial sector for their unreserved support, which allowed us to become a new star in the investment market. The management hereby commit ourselves to maintaining our efforts to live up to the high expectations of our shareholders and business associates for even better results and returns.

By order of the Board

**Lin Chi-Ta**

*Chief Executive Officer*

Hong Kong, 18 April 2007