

Business Review

Overview

Due to the supply and demand situation and operation of funds, international and domestic copper price rose sharply in 2006, together with our successful expansion in production capacity and significant growth in sales volume, both of our revenue and profit reached new heights, of which revenue and gross profit from bare copper wire increased 69.87% and 15.06% respectively over 2005, while revenue and gross profit from magnet wire increased 104.43% and 117.61% respectively over 2005.

Besides mainly relying on increasing capacity and output through installing new facilities and reforming existing facilities to achieve economy of scale, the growth in revenue and profit is also attributable to our considerable effort in raising the proportion of our high value added magnet wire; improving features of our products by R&D carried out by a well experienced and dedicated technology team; and liaising closely with our clients and jointly develop new products to replace imported ones. These efforts are the key to maintain the Group's competitiveness continually.

Industry Overview

According to the International Copper Study Group, the PRC became a leading consumer of copper in the world, and its share of the total world usage has increased to 23% in 2005 from only 9% in 1995. Copper consumption is an important indicator for measuring a country's status of economy development, and such consumption is in line with the trend of its GDP. The PRC's copper consumption increased one million tonnes in just a short period of 2000 to 2005, representing an average annual growth of more than 70%. The PRC has a large population and its copper consumption per capita is under 3 kg, which is a low consumption level, in comparison, the copper consumption per capita of US and Japan has been 8 – 10 kg. Therefore, as long as the growth in economy is sustaining, copper usage will be on the rise.

Magnet wire is a major component of transformers, motors and coils. According to the CRU Report, the market of magnet wire in the PRC has grown rapidly driven by a strong growth in the production of household appliances (which was estimated to be in the range of 7-15% per annum). The growth of both the production and consumption of magnet wire in the PRC are quite stable over the last five years, and the total consumption volume has been higher than its total production volume throughout these years. This shows that demand for magnet wire in the PRC has consistently exceeded its supply. Therefore, the PRC has to rely on import to satisfy its demand, especially in the Pearl River Delta region which is a major importing area and accounted for about 50% of the nation's total import. It is recognized that currently, the copper-manufacturing centre of the world is shifting to the PRC. International Copper Association Ltd., an international organization for promoting the use of copper worldwide, took the view that the PRC had taken the leadership role among copper centres worldwide in the home appliance arena and in the research and development of copper rotor electric motor. The PRC would play a larger and more significant role in copper industry and worldwide copper market.



Market Position

Bare copper wire

In the Pearl River Delta region, there are a number of bare copper wire manufacturers. However, according to the SECRI Report, in 2005, in terms of production output, Tai-I Jiang Corp was the third largest manufacturer of bare copper wire in the PRC and the largest manufacturer of bare copper wire in the Pearl River Delta region. The Group's production of bare copper wire in 2005 accounted for 40% of the market share in the Pearl River Delta region.

According to the SECRI Report, in 2005, among the major bare copper wire manufacturers in the PRC which utilise the continuous casting and rolling production line, only five of them had the production capacity of 150,000 tonnes of bare copper wire, and only three of these manufacturers had an annual production output of bare copper wire of more than 130,000 tonnes. The SECRI report states that Tai-I Jiang Corp, in 2005, had an average monthly output of bare copper wire of 12,000 tonnes. Apart from the major bare copper wire manufacturers mentioned above, the rest of the industry is fragmented and consists of various manufacturers with smaller production-scale. According to the report of “銅加工雜誌”, the scale of Tai-I Jiang Corp. ranked the third in the PRC in 2006.

Magnet wire

According to the data collected by SECRI, in 2004, among the manufacturers of magnet wire in the PRC, more than 18 of them had an annual production capacity of more than 5,000 tonnes of magnet wire, eight of them had an annual production capacity of more than 20,000 tonnes and only three of them had an annual production capacity of more than 25,000 tonnes. In 2004, Tai-I Copper was one of the top 10 largest magnet wire manufacturers (in terms of sales amount) in the PRC. In 2004, Tai-I Copper recorded RMB625,037,000 sales for magnet wire. At present, the production capacity of Tai-I Copper reached 50,000 tonnes of magnet wire per annum, which nearly doubles its production capacity of 26,000 tonnes of magnet wire in 2004.

All in all, according to all the information stated above, the Group is currently at a highly competitive position in its industry in the PRC.



Strengthen Competitiveness of Operation

The Group has maintained good relationships with prominent and other customers

The Group's management focuses on maintaining good relationships with the Group's customers. The Group's bare copper wire customers, include Dongguan Jeton Cable Works Limited (東莞澤龍線纜有限公司), Dongguan Well Shin Electronic Products Co., Limited (東莞維升電子製品有限公司), Guangzhou Panyu Tianshun Electrical Co., Ltd. (廣州番禺天順電工器材有限公司), Shenzhen Baohing Electric Wire & Cable Manufacture Co., Ltd. (深圳寶興電線電纜製造有限公司) and Shenzhen Chengwei Industrial Co., Ltd. (深圳市成威實業有限公司), which are prominent players in their respective industries. The Group also supplies magnet wire to prominent customers which include Mabuchi Industry Company Limited (萬寶至實業有限公司), Panasonic Motor Zhuhai Co., Ltd. (珠海松下馬達有限公司), Panasonic Ecology Systems Guangdong Co., Ltd. (廣東松下環境系統有限公司, formerly known as 順德松下精工有限公司), and Guangdong Galanz Enterprise Group Co., Ltd.). The Group has maintained established relationship with these customers, most of which have had more than three years of business relationship with the Group.

As most of the major customers of the Group are situated in the Pearl River Delta region and the Group's production facilities are situated at the Eastern District of the Guangzhou Economic and Technological Development Zone, the PRC, the Group can easily and quickly access its customers in the vicinity which enables it to maintain a closer relationship with those customers and to achieve speedy and responsive delivery of products to its customers within the region.

The management of the Group believes that it has successfully maintained strong relationships with the above named customers over a period of years. Through such customer relationships, the Group is able to gain insights into industry developments and future product plans and emphasis, which can help the Group more effectively to manage its own production and expansion planning.

The Group has established stable and good working relationship with numerous suppliers in the world

The main raw material in the our production of bare copper wire is copper cathode, and raw materials for the production of magnet wire include bare copper wire (produced by the Group itself) and varnish.

The copper cathodes used in our production have been supplied by various major and renowned copper cathode suppliers such as Sempra Metals Concentrates Corp. (LME base metal member), Corporacion Nacional del Cobre de Chile, CODELCO (the world's largest copper mining enterprise in Chile), GLENCORE (the world's largest mining and raw material supplier for industrial consumption), BHP (Australia), TRAFIGURA (the world's largest independent trading company), PPC (Japan), Sumitomo Metal Mining (住礦) (Japan), 金隆銅業有限公司 and 滬海明暉.

The Group has established working relationships with the above renowned copper cathode suppliers for many years, and thus our source of supply was adequately diversified.

Human Resources: Investment in Human Resources

The Group has a dedicated management team with extensive experience. Most of the senior management members have joined the Group since its establishment, and have been serving the Group or its subsidiaries. In addition, we also invited international talents with professional qualification from overseas to join our senior management team. Under the leadership, vision and drive of the Group's management, we have become one of the market leaders in the PRC within a relatively short period and assumed a leading role in the Pearl River Delta market. The Group has also built up a highly respected brand name.

As at 31 December 2006, the Group had about 1,250 full time employees in the PRC. For the year ended 31 December 2006, staff cost was approximately RMB40,859,000 (2005: RMB28,050,000), of which contributions to defined contribution retirement schemes were approximately RMB2,814,000 (2005: RMB2,117,000). The Group ensured its remuneration to remain at a competitive level, and distributed bonus to its employees in accordance with the Group's general remuneration policy in line with their performance. In addition, the Group also tried to retain and provide incentive to its technical and management talents through providing internal training and development programs.

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, employment 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 the payroll of its staff 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.

The executive Directors and certain members of the senior management of the Group, being non-PRC citizens, may elect not to participate in the state-managed social welfare scheme operated by the local government of the PRC. If there is a change in the PRC rules and regulations with respect to the retirement scheme upon which the Group is required to contribute to the social welfare scheme for non-PRC citizens, the Group shall comply with such new rules and regulations within the time limit prescribed by the relevant authorities.

Use of Proceeds from the Share Offer

The proceeds from the Company's share offer, after deduction of related expenses, amounted to approximately HK\$220.76 million, which are intended to be applied in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds from the Share Offer" in the prospectus of the Company dated 28 December 2006. Up to the date of this report and in accordance with the plans as set out in the prospectus, approximately HK\$44 million were utilized to repay short-term borrowings for trade financing purpose and approximately HK\$22 million were utilized for general working capital of the Group. The remaining net proceeds of HK\$154.76 million is temporarily placed as short-term deposits with licensed banks in Hong Kong and the PRC.

Business Outlook

Moving forward, the Group will continue to deploy management expertise to develop high value added products. We shall optimize our product mix and expand our markets. We intend to establish our business operation covering other regions in the PRC as and when opportunities arise. With our expertise in the manufacture of cable and wire, we believe that we are well positioned to implement our development plans on new products so as to enhance the Group's profitability for the benefit of our shareholders.