MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover for the year ended 31 December 2006 amounted to HK$174 million, which represented an increase of 4% as compared to the same period last year.

The consolidated result of the Group for the financial year ended 31 December 2006, which amounted to a loss of HK$12 million (2005: HK$27.2 million). This represented a decrease of approximately HK$15 million or 56% as compared to the loss of previous financial year. The decrease in loss noted mainly due to the following:

(i) In 2005, an impairment loss of HK$12.3 million was made on interest in associates. No such loss in 2006.

(ii) In 2005, share of losses of associates was HK$1.9million. No such loss in 2006.

At the balance sheet date, the Group's net liabilities were HK$26 million (2005: Net liabilities of HK$31.4 million). The increase in net assets of approximately HK$5.4 million as compared to 2005 is mainly the net effect of the increase in issued capital of HK$18 million and the loss incurred for the year.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: HK$ Nil).

THE GROUP'S LIQUIDITY AND FINANCIAL RESOURCES

At the balance sheet date, the Group had cash and bank deposits of HK$7.5 million (2005: HK$4.1 million) which included a pledged bank deposits of HK$1.5 million (2005: HK$1.5 million) and a foreign currency deposit of RMB1.6 million (2005: RMB1.3 million).

The Group's consolidated net borrowings decreased from last year's HK$23 million to HK$17.4 million. The Group's gearing ratio, which is expressed as a percentage of the Group's net borrowings over total assets value of HK$71 million as at 31 December 2006 (2005: HK$74 million), has decreased from 31% to 25%. The decrease was the net effect of the decrease in the Group's total assets value and net borrowing as compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

The amount of borrowings and unsecured other loans due within one year at the balance sheet date amounted to HK$11,943,000 (2005: HK$23,018,000). The secured loans are secured over the Group's leasehold land and buildings held for own use situated outside Hong Kong with a carrying amount of approximately HK$16 million (2005: HK$16 million), fixed deposit approximately HK$1.6 million (2005: HK$1.5 million), the Company's guarantee and certain trade receivables of a subsidiary. The table below shows the type, maturity, currency and interest rate profiles of the Group's bank and other borrowings at the balance sheet date.

	2006	2005
	HK$'000	*HK$'000*
DEBT MATURITY PROFILE		
Within one year	**11,943**	23,018
Within two to five years	**5,463**	—
Total	**17,406**	23,018
INTEREST RATE PROFILE		
Unhedged floating	**10,906**	16,518
Fixed	**6,500**	6,500
Total	**17,406**	23,018
NATURE OF DEBT		
Secured	**10,526**	8,269
Unsecured	**6,880**	14,749
	17,406	23,018
CURRENCY PROFILE		
Hong Kong Dollars	**6,880**	14,749
US Dollars	**3,574**	—
Reminbi	**6,952**	8,269
	17,406	23,018

MANAGEMENT DISCUSSION AND ANALYSIS

Despite that the Group sustained recurring losses and had net current liabilities of HK$46 million at 31 December 2006, the directors of the Company are of the opinion that the Group will be able to meet their obligations as and when fall due as continuing financial support will be received from a substantial shareholder, Tees Corporation.

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES, INTEREST RATES AND RELATED HEDGES

To manage the risk associated with an uncertain market environment, the Group pursues a funding strategy, using equity as far as possible to finance long-term investments.

The Group's borrowings and cash and cash equivalents are primarily denominated in Hong Kong dollars, Renminbi and US dollars. The Group does not hedged against foreign exchange risk associated with the US dollar, as the management believes that the Hong Kong dollar will remain pegged to the US dollar in the foreseeable future. The management will monitor closely to ensure measures are taken against any adverse impact on the exchange risk associated with the appreciating Renminbi.

The interest rates profile of the Group's borrowings and unsecured other loans comprises a mixture of fixed and floating rates. The Group does not hedged against interest rates risk as the management does not expect the impact of any fluctuation in interest rates to be material to the Group.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

In March 2006, the Company had disposed of Successful Mode Investment Limited, a wholly-owned subsidiary of the Company, and its entire investment in Chinese 2 Linux (Holdings) Limited ("C2L"), an associated company of the Company, for a consideration of HK$2 million. The disposal constituted a discloseable transaction of the Company under the Listing Rules and details of the disposal was contained in our circular to the shareholders on 18 April 2006. An impairment loss of approximately HK$12 million arise from the disposal was reflected in the Group's results for the year ended 31 December 2005.

Save as disclosed above, the Group had neither any material acquisition nor disposal in 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's Turnover increased by 4% to HK$174 million (2005: HK$168 million). The Group's gross profit decreased by 5% or to HK$37 million (2005: HK$39 million) despite the increase in turnover as gross margin fell by 2% to 21% (2005: 23%). The drop in gross margin was mainly due to the rising raw material cost and labor cost in the Guangdong province as well as the appreciating Renminbi during the year under review.

The loss for the year was reduced by 56% to HK$12 million (2005: HK$27 million). The significant reduction in loss as compared to last year was resulted from the completion of the Group's business restructuring exercise following the disposal of one of our wholly-owned subsidiaries together with its entire interest in an associated company of the Group in March 2006. The results of the associated company, particularly, the share of losses and the impairment loss of interests in associate of $1.9 million and $12.3 million were reflected in the year 2005.

In June 2006, the Company has successfully placed a total of 360,000,000 ordinary shares of HK$0.05 each to not less than 6 placees at the placing price of HK$0.05 per placing share. The net proceeds of HK$17.5 million were used for repayment of loans from financial institutions and general working capital.

On 27 June 2006, the Company received an unconditional mandatory cash offer made by Partners Capital on behalf of Maxprofit Global Inc. to acquire all the issued shares of Megainfo Holdings Limited ("Megainfo") for a consideration of HK$0.0318 per share (the "Offer"). The Board had considered the advice from the independent financial adviser of the Offer and believed the acceptance of the Offer would enhance the Group's liquidity and is in the interests of the shareholders of the Company as a whole. The Company had accepted the Offer on 7 July 2006 and disposed of all its interest representing 74,632,500 ordinary shares in Megainfo. HK$2.1 million was recognised as loss on disposal of available-for-sale financial assets which represented the deficit of consideration over the carrying value of these shares.

Outlook

The Management expects the global consumer products market will continue to provide steady but modest growth. However, the increasing pressures from the appreciating Renminbi will remain as our biggest challenge in 2007. We will focus our effort in developing higher value added products to enhance the Group's competitiveness.

MATERIAL CONTINGENT LIABILITIES

The Group is not aware of any material contingent liabilities as at 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

At the balance sheet date, the Group employed 29 employees (2005: 38) in Hong Kong and approximately 1300 employees (2005: 1453) in Mainland China. Employees' remuneration are given and reviewed based on market norms, individual performance and experience. Awards and bonuses are considered based on the Group's business results and employees' individual merit.

The Group also granted share options to certain employees of the Group on 10 July 2000, entitling them to subscribe for shares of the Company. These options are exercisable in stages commencing twelve months from the date of grant. The expiry date of the options is ten years from the date of grant. During the year under review, 540,000 share options were cancelled due to the resignation of an employee and no option was exercised.