FINANCIAL REVIEW

The Group's revenue increased by 6% to HK$1,733 million from HK$1,631 million in 2005. Operating profit before interest and tax was HK$67 million, representing a decrease of 45% over last year of HK$121 million. Profit attributable to shareholders amounted to HK$28 million, as compared to HK$93 million in 2005. Basic earnings per share were 3.5 Hong Kong cents, as compared to 13.3 Hong Kong cents in 2005.

The Group's shipment volume decreased by 7% and average sales prices increased by 13%. Material costs increased by double digit over the year as a result of higher oil prices, surge in metal prices and the appreciation of RMB. The increase of production overheads by 15% per square foot was mainly attributed to the relative fixed nature of production overheads and the low utilization of production capacities. Overall gross profit margin was dropped from 19.3% in last year to 15.5% in this year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances operations through a combination of internally generated cash flows, shareholders' equity and borrowings from banks.

As at 31 December 2006, the Group had total assets of HK$2,391 million (31 December 2005: HK$2,282 million) and interest-bearing borrowings of HK$774 million (31 December 2005: HK$786 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of 32% (31 December 2005: 34%).

The Group's net current asset of HK$63 million (31 December 2005: HK$39 million) consisted of current assets of HK$910 million (31 December 2005: HK$922 million) and current liabilities of HK$847 million (31 December 2005: HK$883 million), representing a current ratio of 1.07 (31 December 2005: 1.04).

As at 31 December 2006, the Group's current assets consisted of HK$112 million (31 December 2005: HK$156 million) held as cash and cash equivalents, of which 5% was in HKD, 57% was in USD, 34% was in RMB and 4% in other currencies.

The Group's current assets also consisted of HK$401 million (31 December 2005: HK$438 million) trade receivables from customers. Debtors turnover days decreased to 88 days (31 December 2005: 93 days) as a result of effective credit control management.

As at 31 December 2006, the Group's inventories increased to HK$301 million (31 December 2005: HK$273 million). Inventory turnover days was 72 days (31 December 2005: 66 days), mainly as a result of an increase in material prices and an increase in Just-In-Time requirements from major customers. Trade payables decreased to HK$381 million from HK$416 million in 2005 which was in line with the increase in equity financing. Creditor turnover days was approximately 99 days (31 December 2005: 105 days).

INTEREST-BEARING BORROWINGS

As at 31 December 2006, the Group had the interest-bearing borrowings as follows:

	2006	2005
	HK$'000	*HK$'000*
Amounts payable:		
Within one year	**366,451**	363,891
In the second year	**278,445**	239,816
In the third to fifth year, inclusive	**128,903**	181,906
	773,799	785,613
Less: Portion classified as current liabilities	**(366,451)**	(363,891)
Long term portion	**407,348**	421,722

Of the total interest-bearing borrowings, USD denominated loans accounted for 18% (2005: 16%) and the 82% balance were HKD denominated loans (2005: 84%). Almost all interest-bearing borrowings are charged with floating rates. The Group had maintained Hong Kong Dollar unexpired interest rate swap contract of HK$98 million (2005: HK$178 million) to hedge the HIBOR denominated loans. The Directors do not recognize a significant seasonality of borrowing requirements.

On 15 October 2006, the Group arranged a syndicated loan facility of HK$165 million with several financial institutions. The facility was a term loan facility with a tenor of 36 months from 15 October 2006. The facility was mainly used to refinance HK$100 million syndicated loan facility drawn in 2004 and for other general working capital requirements.

FOREIGN EXCHANGE EXPOSURE

Since The People's Bank of China announced an appreciation of 2% of RMB in July 2005, RMB versus USD further appreciated 3.3% over the year under review. Approximately 39% of the Group's purchases and expenses were denominated in RMB. As the Group imported a substantial proportion of its critical raw materials and machineries from overseas which were non-RMB denominated, this would help to mitigate the full effects arising from Renminbi revaluation. Presently, the Group has not entered into any financial instrument for hedging purposes. Nevertheless, the Board will continue to monitor foreign exchange exposure in the future and will consider hedging such exposure to minimize exchange risk should the need arise.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2006, excluding the associate, the Group had approximately 7,900 employees. For the financial year ended 31 December 2006, total staff costs amounted to HK$202 million. Under the Group's remuneration policy, employees are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants including any employees of the Group. In January 2006, a total of 9,800,000 share options were outstanding under the scheme. During the year under review, a total of 4,800,000 share options were exercised and 5,000,000 shares options were lapsed. As at 31 December 2006, no share options were outstanding under the scheme.

The Group follows a policy of encouraging its subsidiaries to send their staff to attend training classes or seminars that are related directly or indirectly to the Group's businesses.

CONTINGENT LIABILITIES

At 31 December 2006, banking facilities of HK$797 million (31 December 2005: HK$761 million) granted to and finance lease agreements of HK$201 million (31 December 2005: HK$200 million) entered into by subsidiaries were subject to the guarantees given by the Company and were utilised to the extent of approximately HK$193 million (31 December 2005: HK$312 million) and HK$171 million (31 December 2005: HK$163 million), respectively.

On 1 March 2006, a former customer has filed a claim against one of the subsidiaries of the Company seeking incidental and consequential damages associated with the alleged failure of the products sold by the subsidiary and claimed the subsidiary for damages amounting to approximately US$8 million (approximately HK$62,400,000).

The directors, after consulting with legal counsel, are of the opinion that it is not probable that the former customer will succeed in the claim. Thus, no provision for the damages has been made in the financial statements.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group's capital commitments contracted but not provided for amounted to HK$81 million (31 December 2005: HK$146 million). All of these capital commitments were related to construction of factory building or acquisition of plant and machinery.

OTHER COMMITMENTS

At 31 December 2006, the Group's contribution payable for the registered capital of two wholly-foreign-owned subsidiaries incorporated in the PRC totally amounted to HK$411 million (31 December 2005: HK$599 million), of which HK$278 million (31 December 2005: HK$278 million) represented investment in a subsidiary in Tongliao, Inner Mongolia of China to be payable within six months up to June 2007 and HK$132 million (31 December 2005: HK$321 million) represented investment in a subsidiary in Shaoguan, Guangdong Province of China to be payable within five years up to December 2010.

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

Pursuant to the placing and subscription agreements both dated 3 May 2006, Inni International Inc., a substantial shareholder and controlling shareholder of the Company, placed 142,000,000 ordinary existing shares of HK$0.10 each (the "Share") in the issued share capital of the Company at HK$0.80 per share to a placing agent and, subscribed for 142,000,000 new Shares at HK$0.80 per share, resulting in a total cash consideration, before expenses, of approximately HK$114 million.

During the year, a bonus issue of warrants was made in the proportion of one warrant for every ten ordinary shares held by the members on the register of members on 5 June 2006, resulting in 85,455,000 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$1.20 per share, payable in cash and subject to adjustment from 26 June 2006 to 31 October 2008.

None of the warrants were exercised during the year. At the balance sheet date, the Company had 85,455,000 warrants outstanding (31 December 2005: Nil).

DIVIDENDS

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

CLOSURE OF REGISTER OF MEMBERS

The register of Members of the Company will be closed from 6 June 2007 (Wednesday) to 8 June 2007 (Friday), both days inclusive. In order to qualify for the attendance of the forthcoming annual general meeting, transfer forms accompanied by relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 5 June 2007 (Tuesday).