



Management Discussion and Analysis

BUSINESS REVIEW

Turnover of the Group increased by HK\$197,712,000 (or 46.3%) over the previous year to HK\$624,388,000 for the year ended 31 December 2006. The increase is mainly attributable to the turnover amounting to HK\$187,718,000 for the 9 months after acquisition of Sino Stride Technology in 2006.

The Group reported a loss attributable to shareholders of HK\$259,075,000 for the year of 2005, the loss is significantly decreased by HK\$177,566,000 to HK\$81,509,000 in year 2006. Photomasks project registered a loss before finance cost decreased by HK\$160,205,000 for the current year. The decrease includes a provision for photomask equipment of HK\$123,671,000 made for 2005 whereas no provision was provided for the equipment of this project in the current year. Newly-acquired Sino Stride Technology contributed to an earning after minority interests of HK\$17,732,000.

System integration solutions services- Sino Stride Technology

In April 2006, the Group successfully acquired 71.3% of shares of Sino Stride Technology by issuance of new shares and became the controlling shareholder of Sino Stride Technology.

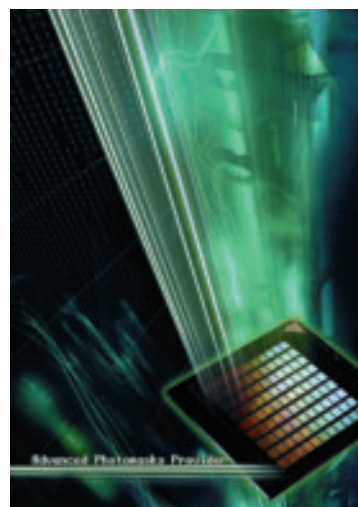


Subsequently, the listing of shares of Sino Stride Technology on the Growth Enterprise Market of the Stock Exchange of Hong Kong was withdrawn in November 2006. In the initial consolidation of Sino Stride Technology by the Group for the nine months ended 31 December 2006, the turnover amounted to HK\$187,718,000 and operating profits reached HK\$28,037,000. An earning after financial cost and minority interests of HK\$17,732,000 was contributed to the Group.

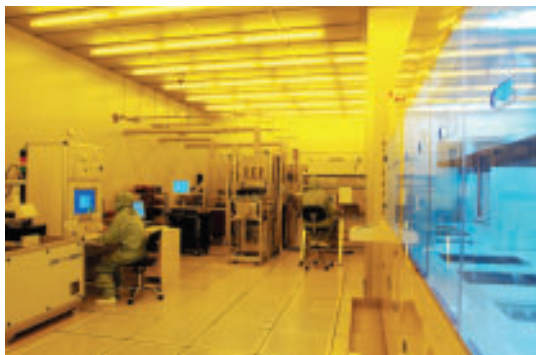
The Group believes Sino Stride Technology, as a member of the Group, may further explore the business in the future and improve its profitability by capitalizing on the strong domestic commercial network of the Group.

Photomasks

The segment strives to secure customer's orders and improve cost-effectiveness. Its marketing efforts commences to make a progress with its turnover being increased significantly to HK\$42,542,000 in 2006 from HK\$20,868,000 of 2005 and operating loss being decreased from HK\$226,226 to HK\$66,021,000. At the end of 2005, an impairment of HK\$123,671,000 was provided to the machinery and equipment based on the future revenues of assessed assets and there was no need to make provision for impairment of equipment after review thereof in the current year.



Management Discussion and Analysis



Telephone accessories and power cords

In 2006, the turnover of this segment slightly decreased by 0.5% to HK\$221,517,000 and successfully made a turnaround from loss to profit with a contribution of operating earning of HK\$992,000. In addition to cost control being strengthened, this was mainly due to the fact the Group promptly adjusted its selling price to maintain profits during the period of price hike for raw materials in 2006.

Adaptors and electronic products

Turnover for the year increased by 14.5% to HK\$110,265,000, but loss for the year increased from HK\$5,741,000 to HK\$9,419,000 due to the fact the orders every time placed by the customers for adaptors was substantial and the bargaining power of the customers was also high and the Group consumed time in enhancing sales volume and prices during the period of prices hike for raw materials, thereby constituting adverse factors.



High-precision metal components

Sales in 2006 decreased by 3.4% to HK\$64,065,000. As a result of flood being occurred in the Dongguan production base of the Group in July 2006, the period for recovery of equipment for high-precision metal components was prolonged and resulted in decrease in turnover and increase in outsourcing costs and operating loss for the year of HK\$3,259,000 was recorded for this segment compared to an operating earning of HK\$3,693,000 in the previous year.

Printed circuit boards

As the orders from major customers continued to be decreased, sales of this segment decreased by 50.5% to HK\$24,453,000, and operating loss increased to HK\$18,840,000 from HK\$8,399,000.

Jointly controlled entity – copper wire

The global copper price was in an increasing trends till the second quarterly in 2006 and maintained at a high level and dropped till the fourth quarter.



Management Discussion and Analysis

Copper wire making jointly controlled entity recorded an increase of 23% in value as a result of rise in average price for coppers throughout 2006, however, the earning incurred by copper materials' hike was offset by the decrease therein at the end of 2006, no appreciation earnings in substantial copper stock acquired in 2005 was recorded in 2006. Earning attributable to the Group was decreased to HK\$16,021,000 in 2006 from HK\$26,354,000 in 2005.

Jointly controlled entity – 3S projects (GPS, GIS, RS)

Due to market competition, barriers to product development and market expansion, a loss for the year of HK\$10,429,000 was recorded, slightly decreased by 36.4% compared to last year.

Associate – Tianjin Printronics Circuit Corporation (“TPC”)

In 2006, sales of TPC increased by 41.4% to HK\$342,763,000 and earning attributable to the Group was increased significantly from HK\$10,493,000 to HK\$17,863,000.

PROSPECTS

By providing the quality products with extremely competitive prices, photomasks segment of the Group has successfully tapped into the photomask market and gained an impressive image over the heart of the customers. As profit margin of manufacturing high-end photomasks is very high, with the development of domestic semi-conductor industry, the Group will make an appropriate investment to complement the gradually emerging market for high-end photomasks domestically in light of the need of market

Upon completion of acquisition of Sino Stride Technology in April 2006, in addition to maintaining its original system integration solutions services, Sino Stride will proactively tap into the systematical maintenance services provided to the original customers to improve earning performance. Apart from as a new earning source, acquisition of Sino Stride will further lay a solid foundation for the development of domestic intelligence information business by the Group.

With respect to traditional manufacturing, the key is to rationalize the structure, optimize inventory management and control cost so as to reduce the adverse effects arising from fluctuation in market prices of raw materials and salary rises in the Pearl River Delta. At the end of 2006, the Group had relocated the logistics and control centers of the traditional business from Hong Kong to Dongguan factory site, together with implementation of various measures to reduce the operational cost of loss-making business, thus improving the results of traditional manufacturing departments in the future.

Management Discussion and Analysis

TPC, which the Group holds its 28.17% interests, have just received the approval of its listing application from CSRC, and is in the process of preparation for the listing on domestic stock market. The listing of TPC will strengthen its business development thereby bringing positive effects on the growth in earnings of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2006, the Group's gearing ratio (total borrowings divided by equity) has decreased to 0.29 (31 December 2005: 0.37) whereas current ratio (current assets divided by current liabilities) has increased to 1.05 (31 December 2005: 0.96).

Bank loans had increased by approximately HK\$50,819,000 to HK\$164,886,000 as at 31 December 2006.

At 31 December 2006, the capital commitments of the Group and its jointly controlled entities contracted but not provided for and authorised but not contracted for amounted to approximately HK\$1,310,000 (31 December 2005: HK\$4,217,000) and HK\$920,000 (31 December 2005: Nil) respectively.

Although the Group has been facing recurring operating losses and limited working capital, the directors are still of opinion that the Group will be able to raise sufficient funds to meet its financial obligations as Shougang Holding has agreed to provide adequate funds to enable the Company to meet in full its financial obligations as they fall due for the foreseeable future.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Exposure to fluctuation in exchange rates is immaterial to the Group's financial results as both the Group's borrowings and revenue were mostly denominated in Hong Kong Dollars or United States Dollars.

CAPITAL STRUCTURE

During the year, a total of 516,465,926 new shares were issued to acquire 71.3% interests in Sino Stride Technology. Details of movements in the ordinary share capital are shown in the note 38 to the financial statements.



Management Discussion and Analysis

CONTINGENT LIABILITIES

The contingent liabilities of the Group, mainly from guarantees for banking facilities granted to a jointly controlled entity, decreased from approximately HK\$81,733,000 as at 31 December 2005 to approximately HK\$67,278,000 as at 31 December 2006. In addition, one of the subsidiaries, Sino Stride Technology has given a cross guarantee approximately HK\$9,000,000 to a bank in connection with credit facility utilised by a third party.

SALES ORDER BOOK

Compared to 2005, there were no material changes in sales orders position during the year under review. Given the nature of business, the Group believes that the sales order position has remained stable in the foreseeable future.

EMPLOYEES AND REMUNERATION OF POLICIES

The Group had a total of approximately 3,045 employees as at 31 December 2006.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration to motivate and retain existing employees and at the same time to attract potential employees. Remuneration packages are structured in such a way that take into account local practices in the various geographical locations in which the Group and its associates operate. These remuneration packages include basic salaries, allowances, retirement schemes, service bonuses, fixed bonuses, performance related payments and share options where appropriate.