## BUSINESS REVIEW

1. **Financial**

For the year ended 31 December 2006 ("the Year"), the Group's turnover was approximately HK$1,119,000,000, representing a growth of 0.6% compared to the HK$1,112,000,000 in the year 2005. This slight turnover growth during the Year was due to the disposal of its metal manufacturing factory ("Tongda Metal") in Shishi City, Fujian Province, the PRC in 2005. Tongda Metal contributed approximately HK$144,000,000 to the Group's turnover in 2005. Barring the turnover contribution of Tongda Metal in the year 2005, the Group's turnover for the Year recorded a double digit growth of 15.6% over that of the year 2005. The increase was mainly attributable to the rising orders from clients to the Group's electrical fittings and ironware parts products driven by the surging demand for consumer electronic product in China. During the year, the Group further strengthened its collaboration with clients by providing high quality diversified products, resulting in a consistent growth in the Group's turnover.

The Group's profit attributable to shareholder for the Year recorded approximately HK$161,000,000, representing a robust growth of 29% compared to the HK$125,000,000 for the year 2005. The robust growth was due to the successful readjustment of business mix during the Year. The Group gradually reduced the proportion of its traditional, lower-margin business while focusing more on the higher-margin and more value-added business.

2. **Operational information by division**

a. *The Electrical Fittings Division*

For the year ended 31 December 2006, the turnover of the electrical fittings division increased by 15.2% to HK$462,000,000 from HK$401,000,000 for the year 2005. As the Group gained greater market recognition for its high-quality and diversified products, as well as its competitive "time-to-delivery" services, the turnover of the electrical fittings division expanded further.

In-Mould Decoration ("IMD") remained the key revenue generator of this Division. During the Year, the Group produced over 80 million pieces IMD products. Continuous efforts in R&D and a wealth of manufacturing experience have equipped the Group with the state-of-the-art technology in the IMD production. And the group has broadly applied the IMD technology to mobile handset and various household electrical appliances.

## BUSINESS REVIEW *(continued)*

2. **Operational information by division *(continued)***

   a. *The Electrical Fittings Division (continued)*

   The IMD product is the core business and growth driver of the Group which in particular has enjoyed high profitability in the mobile handset market. Because of the persistent economic growth and rising living standard in China, mobile handset has been transformed from a Durable Consumer Goods ("DCG") into one kind of Fast Moving Consumer Goods ("FMCG"). Consumers expect a mobile handset not only to function well but also to look good and artistic in its exterior designs. To capture this new consumption trend, the Group further enhanced its IMD technology by including color coating, plasma surface treatment, leather incrustation, multi-color automatic printing, and alloys with various textures. These techniques can be combined to generate some very unique surface-decoration effects, which have attracted very positive responses from both mobile handset manufacturers and end-users. Given the strong market demand and higher margins, the Group will continue to develop and reinforce its IMD business for mobile handset.

   (i) IMD application in mobile handset is the key growth driver of this Division. Because of our high product quality and efficient delivery, the Group has been a major supplier for leading domestic mobile handset manufacturers in China, such as Haier, Lenovo, TCL, Huawei, ZTE Corporation, UTStarcom, Bird and Amoi. At the same time, the Group also strengthened its relationship with prestigious world-class brands. During the Year, the Group entered into cooperation agreements with two renowned international electronic manufacturing services ("EMS") providers, Solectron and Flextronic, and had benefited from their high technology standards, well-established sales networks and broad customer bases. The Group's management believes that such collaboration would further enhance Group's competitive strengths. During the Year, the Group's new handset accessory products, namely hinges and sliding lids, started to generate revenues. In line with the Group's strategy to diversify its product range, the Group will begin to develop different mobile handset accessories such as keypads, cases and vacuum vaporized plated cell phone decorations, with the aim to provide a one-stop solution for mobile handset manufacturers.

## BUSINESS REVIEW *(continued)*

2. **Operational information by division *(continued)***

   *a. The Electrical Fittings Division (continued)*

   (ii) For the Year, the sales from the Division to the household electrical appliances market amounted to HK$110,000,000, a rise of 3% over the HK$107,000,000 the year 2005. With the rising living standard in China, customers now demand better designs of the household electrical appliances. Accordingly, the Group applied its state-of-the-art IMD technology not only to refrigerators, air conditioners, washing machines but also to microwave ovens, induction cookers, MP3 and MP4, producing a more appealing surface-decoration effect for a wider range of household electrical appliances. The management is confident in expanding its market shares for the IMD refrigerators, air conditioners and washing machines. Going forward, the Group will strive to further broaden its product range by producing IMD bluetooth, switches, games sets, auto electronics products and interior trims in order to maximize its sales revenues from this technology.

   *b. The Ironware Parts Division*

   For the Year, the turnover from the Group's ironware parts division decreased to HK$393,000,000 from the HK$420,000,000 for the year 2005, representing a decline of 6.4%. The fall in the turnover was due to the disposal of the Group's metal manufacturing factory ("Tongda Metal") in Shishi City, Fujian Province, the PRC in 2005, which contributed approximately RMB$144,000,000 to the Group's turnover for the year 2005. The disposed factory produced relatively lower margin products. Barring the turnover contribution of Tongda Metal in the year 2005, the ironware parts division's turnover for the year 2006 recorded a growth of 42% and when compared to the corresponding period in 2005.

   The disposal was a strategic move of the Group to phase out the traditional, lower-margin businesses, e.g. casing of computer, DVD and VCD, and to shift its focus more on higher-margin products, such as casing of plasma and LCD TV, digital camera and MP3. After optimizing its business mix, the Group could sharpen its competitive edge by better leveraging its resources.

   The current two major products of the Division, household electrical appliances and aluminium alloy products, are both being aimed more for the international market. Based on its advanced technology and high product quality, the Group successfully secured orders from renowned international brands such as Cisco, Pace, Samsung and Sony.

## BUSINESS REVIEW *(continued)*

### 2. Operational information by division *(continued)*

*c. The Communication Facilities Division*

The turnover from the Group's communication facilities division decreased to HK$188,000,000 for the Year from the HK$234,000,000 for the year 2005, representing a decrease of 19.7%.

The two major businesses of this division are digital satellite television modems and fiber optic cable.

The sales of digital satellite television modem were mainly targeted at the markets in the Middle East. During the Year, its sales amounted to HK$123,000,000 with a decrease of 18% compared to HK$150,000,000 for the year 2005. The decrease was mainly attributable to the gradual cooling down of the overheated market demand in the Middle East during the year 2005. It is believed that the market demand in the Middle East will remain stable.

During the Year, the sales of fiber optic cable amounted to HK$56,000,000, representing a decrease of 6.7% compared to the HK$60,000,000 for the year 2005. Because of the steady slow down in the fiber optic cable market, along with the long receivable period and low margin in this sector, the Group decided to stop investing in this business and shifting its resources into other more profitable businesses.

The Group will strategically minimize the operation in this Division going forward.

*d. Product Turnover Breakdowns in the year 2005 and 2006*

| | **2006** | 2005 |
|---|---|---|
| Electrical Fittings Division | **41%** | 36% |
| Ironware Parts Division | **35%** | 38% |
| Communication Facilities Division | **17%** | 21% |
| Other (Trading Division) | **7%** | 5% |

## BUSINESS REVIEW *(continued)*

2. **Operational information by division *(continued)***

   d. *Product Turnover Breakdowns in the year 2005 and 2006 (continued)*

   During the Year, the Group strategically adjusted its product mix in order to improve its resource allocation. The above table illustrates the changes in the Group's product turnover breakdowns in the past two years: the major income of the Group came from the most profitable electrical fittings division, whose turnover contribution increased from 36% in the year 2005 to 41% in the Year 2006. The turnover share of the ironware parts division shrank from 38% in 2005 to 35% in 2006. The turnover share of the communication facilities division with relatively lower margin fell from 21% to 17% from 2005 to 2006. In the future, the Group will continue its market-oriented strategy to allocate its resources to manufacturing innovative products with the highest potentials, so as to maximize profits.

3. **Prospect**

   Given a continuing boom in the consumer electronic product market and the Group's unique positioning and competitive strengthens, the management is fully confident in the business outlook for the Group.

   In order to reinforce its position as a leading supplier of components and accessories of consumer electronics products in China, the Group will focus on electrical fittings and ironware parts divisions, of which, the highly profitable IMD production will be the first priority. With the well-established landscape in the domestic market, the Group will endeavor to seek opportunities to cooperate with reputable international mobile handset manufacturers. In the Year, the Group had successfully completed the technology testing for two leading mobile handset manufacturers and was certified as their qualified supplier. The Group is in the process of being qualified as a supplier of another international mobile handset manufacturer. The Group is very much determined to remain a key supplier of international mobile handset manufacturers in the long run. In the year 2007, products with high profit margin such as mobile handset keypads, IMD switches, notebook computer casing and remote control will be launched. The new products will further diversify the Group's product range, resulting in a greater variety of choices for clients.

   As to the ironware parts division, it is expected that there will be a steady growth in the sales of aluminum alloy products. At the same time, given the closer relations with international clients and overall market upside, a robust growth is expected in the sales of consumer electronics product casing. The Group enjoys a broad and diversified international client base in this division, such as, Sony and Samsung. Going forward, the Group will seek opportunities to expand its cooperation with them from ironware parts to electrical fittings.

## BUSINESS REVIEW *(continued)*

3. **Prospect *(continued)***

In respect of the communication facilities, due to the relatively lower margin of the fiber optic cable market, the Group is reducing the production in this division. Accordingly, a significant decrease in turnover from the communication facilities division is foreseen during the year 2007.

To seize the opportunity of increasing orders from clients, the Group will expand its production capacity in the future. The Group will further expand its current IMD production facilities in the Shishi City, Fujian Province. A brand new IMD factory is planed in Tianjin, the largest mobile handset manufacturing city in China. The geographic proximity with clients will further shorten delivery time while increasing the Group's share in the IMD market. The current manufacture facilities could well support the manufacturing of products in all orders, so for the sake of prudence, the Group will not kick off the plant construction in Tianjin until the bulk of orders from the international mobile handset manufacturers are confirmed. In 2007, the Group will expand the production capacity in its ironware parts factory in Shenzhen, Guangdong Province, so as to cope with the surging client orders.

As a part of its expansion strategy to increase market share in Japan, the Group entered into a letter of intent with Kaga Electronics Co. Ltd. ("Kaga"), one of the largest electronic trading houses in Japan, in May 2006 whereby Kaga shall become the sole distributor of the Group's products in Japan. The specific details of the cooperation are currently under full consideration. The Group will keep its prudent approach in understanding and researching the Japanese market to formulate a proposal which is in the best interest to the Group.

Through international market expansion, product diversification, business structure optimization and production scale expansion, the Group's competitive advantages are enhanced to a large extent. The management has every confidence in providing high-quality products and services to its clients while creating a splendid future for the Group and maximizing shareholders' returns.

## LIQUIDITY AND FINANCIAL RESOURCES

Our Group generally financed its development and operations with internally generated cash flow and other banking facilities by its principal bankers.

During the period, the Group entered into a loan agreement with, among other parties, Hang Seng Bank Limited and the Hongkong and Shanghai Banking Corporation Limited as coordinating arrangers in respect of the term loan facility up to an aggregate amount of HK$200 million.

## LIQUIDITY AND FINANCIAL RESOURCES *(continued)*

Our Group has experienced rapid growth during the year. With the support of the profitability of the business and the careful monitoring of the liquidity position of the Group, the liquidity of the Group is maintained at a healthy level.

As at 31 December 2006, we had cash and bank balances of HK$118,410,000 (2005: HK$112,440,000), of which more than 90 per cent were denominated in Hong Kong dollars and RMB. Our Group carried on its trade mainly in Hong Kong dollars and RMB. As the exchange rates of RMB against Hong Kong dollar were relatively stable, the Group was not exposed to any material exchange rate fluctuation.

As at 31 December 2006, the gearing ratio (total debt/total asset of the Group) was 0.47 (2005: 0.52).

Subsequent to the year end, on 22 January 2007, 645,000,000 new shares were allotted and issued at an issue price HK$0.6 per share. The subscription of these new shares was immediate following a placement of 645,000,000 existing shares in the Company by the major shareholder, Landmark Worldwide Holdings Limited, at the same price to independent third parties. This placement raised net cash proceeds of approximately HK$376 million to the Group. After the new issue of shares, the Group's liquidity is further strengthened and is adequately financing the next one to two years' expansion.

## EMPLOYEE

As at 31 December 2006, the Group had about 7,000 (2005: 7,000) employees. The Group provides competitive remuneration packages to employee commensurable to the level and market trend of pay in the business in which the Group operates, with mandatory provident fund schemes and a share option scheme.

## CAPITAL STRUCTURE

All of the Company's shares are ordinary shares. Other than the non-current portion of bank loans of HK$169.4 million (2005: HK$93.7 million), the Group's borrowings are repayable within one year as at the balance sheet date.

## CONTINGENT LIABILITIES

As at the balance sheet date, the Group had contingent liabilities in respect of outstanding irrevocable letters of credit of HK$24 million (2005: HK$44.0 million).

In addition, the Company had contingent liabilities in respect of corporate guarantees provided for banking facilities for certain subsidiaries and an associate, which were utilised to the extent of HK$39.9 million (2005: HK$68.1 million) at the balance sheet date.

Save as disclosed above, neither the Group nor the Company, had any significant contingent liabilities at the balance sheet date.