

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group recorded a turnover of approximately US\$26,308,000, increased 17% from last year's approximately US\$22,485,000. The growth in turnover was mainly attributable to expansion of clients base within the market and customer orders are continuous improved. As a result of the slight reduction in raw material costs, the Group's gross profit increase to approximately US\$2,929,000 against last year's US\$1,605,000. Loss attributable to equity holders for 2006 was US\$7,017,000 (2005: US\$5,068,000). Basic loss per share was US0.08 cent (2005: US0.06 cent).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group's total shareholder equity was approximately US\$8,957,000 (2005: US\$15,159,000).

Total bank and other borrowings as at 31 December 2006 were approximately US\$11,674,000. This consisted of outstanding secured and unsecured loans from banks and other financial institutions, unsecured loan notes and other loans which are mainly denominated in Renminbi and US dollars. The sales and purchases of the Group are also mainly denominated in Renminbi and US dollars. As the exchange rates of Renminbi against US dollars were relatively stable during the year, the Group's exposure to fluctuations in exchange rates is minimal.

As at 31 December 2006, the cash and bank balances of the Group was approximately US\$3,661,000 (2005: US\$2,635,000).

PLEDGE OF ASSETS

At 31 December 2006, the Group had pledged certain properties and plant and equipment with carrying amounts of US\$8,150,000 (2005: US\$9,375,000) to various banks and other financial institutions for securing loans and credit facilities granted to the Group.

CAPITAL EXPENDITURE

During the year, the Group's total investments in property, plant and equipment and construction in progress for other equipment amounted to approximately US\$671,000, of which approximately 27% was used for the acquisition of plant and equipment approximately 54% was used for the construction in progress for the other equipment.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had outstanding capital commitments of approximately US\$357,000 in connection with the acquisition of property, plant and equipment.

FINANCE COSTS

For the year ended 31 December 2006, finance costs slightly increased to US\$883,000 from US\$746,000 for 2005, mainly due to the increased in additional bank loan for the year and this has resulted in an increase in the bank and other borrowings of the Group.

CONTINGENT LIABILITIES

At 31 December 2006, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed approximately 780 full time management, administrative and production staff in China and Hong Kong. Total staff costs including directors emoluments incurred during the year, amounted to US\$1,651,000 (2005: US\$1,741,000). The remuneration policy of the employees of the Group is based on their merit, qualifications and competence.