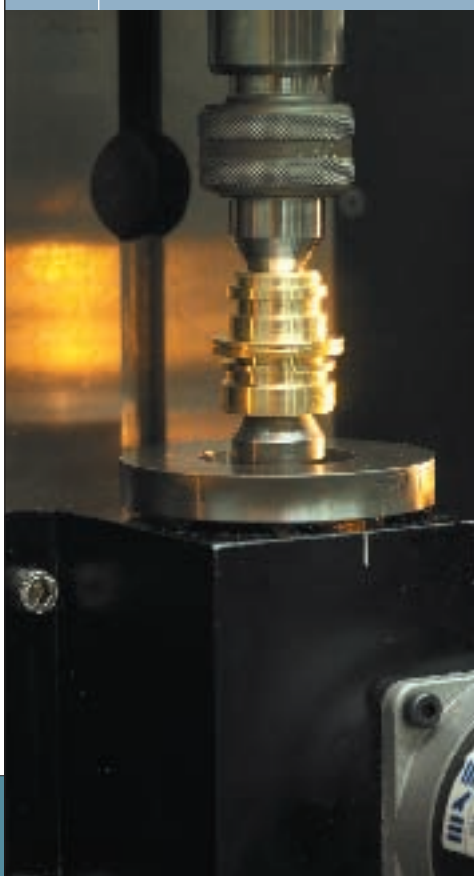


MANAGEMENT DISCUSSION AND ANALYSIS



Multi Spindle Lathe

Quality Control



INDUSTRY REVIEW

The Group supplies high precision metal components to various industries such as HDD industry, fluid power industry and automotive industry.

Hard Disk Drive Industry

The Group is one of the world's leading suppliers of pivot shafts and housings and fluid dynamic bearing spindle motor metal components, which are key parts for the assembly of a HDD. HDDs are previously mainly used in computer related products such as desktop computers and notebook computers. Along with increasing storage capacity at an amazing pace, HDDs today are finding new homes in digital home appliances such as digital video device ("DVD") plus HDD players,

digital cameras and camcorders, game machines and Moving Picture Experts Group Audio Layer-3 ("MP3") players, beyond the traditional boundaries of personal computers ("PC(s)") and servers.

Analysts predict a stable PC shipment growth in near future, mainly fueled by the replacement cycle and strong demand from developing areas such as China, India and Latin America. Further, mini HDDs are expected to grow at a faster rate because of the popular demand for MP3 players.

Further, global HDD makers are developing a new generation of mini HDD which can be applied in mobile phones. The Group is expected to benefit from this move.

HDD Components

Fluid Power Industry

Fluid power is the controlled transmission of energy by oil or air – hydraulics or pneumatic.

Fluid power provides the energy required to control a wide range of industrial machinery and equipment. The modern day applications of hydraulics and pneumatics are extremely diverse as follows:

- | | |
|-------------------------|---|
| mobile applications | – fork-lift trucks, cranes, tractors, diggers, tail lifts for commercial vehicles, truck brakes and suspensions |
| industrial applications | – plastics machinery, assembly equipment, machine tools and automatic handling equipment |
| other applications | – suspensions, brakes and steering used in automotive industry
– aerospace equipments
– dams and bridges |



Hydraulic Equipment Component



Reliable and precision metal components are needed in a wide range of industrial applications as mentioned above where consumers are increasingly demanding higher quality. The Group is currently supplying metal components and parts to multinational fluid power equipment companies for their assembly of fluid power devices.

MANAGEMENT DISCUSSION AND ANALYSIS

Automotive Industry

According to the Organization Internationale des Constructeurs d'Automobiles, global automotive production reached approximately 60.6 million units in 2003. While traditional automotive markets in the United States ("US") and Europe continue to grow in a stable manner, China's automotive manufacturing business is one of the rapid growing industries in the world. According to analysts' estimate, China car market will grow at an annual average rate of 10% to 15% up to 2013. China's car market will reach 7.85 million units a year in 2013, up from 2004's 2.61 million units. All giant car makers are investing further in China and this move will definitely boost a rapid growth of high precision automotive parts and components industry in near future.



In the late 80's, big automotive companies realize the need for standardization of quality assurance requirement to reduce the redundant assessment and management of suppliers. The purpose is to support continuous improvement, reduce changing and lower the cost of suppliers in order to benefit customers and end-users. As a result, QS9000 was launched.

QS9000 is applicable to suppliers of production materials, production and service parts, and also to subcontractors of heat treatment, painting and plating as well as other finishing services.

In automotive and related industries, acquiring QS9000 certificate is a certain guarantee of market share.

The Group obtained QS9000 certification in Year 2002 and this gave the Group a platform to develop the automotive industry. Following the Group's awarded qualification of QS9000, the Group then started making contact with multinational automotive components makers and

eventually was certified as a qualified vendor with multinational automotive components makers and begins mass production of automotive parts in year 2005.

OPERATIONS REVIEW

Founded in 1990 in Singapore, the Group is one of the leading suppliers of pivot shafts and sleeves for HDDs. The Group is estimated to have a 20% share of the worldwide market for pivot cartridge components for the HDD industry. In 1999, the Group began to diversify its business to hydraulic components. Further, the Group obtained QS9000 certification in year 2002 and began to penetrate the automotive components market.

While the industry outlook for HDD market is bright, especially thanks for its wide application in desktop computers and its recent application to MP3 and DVD recorders, sales generated from hydraulic components grow at a ever higher rate of 135.4%.

To cope with increasing sales orders, the Group decided to speed up its expansion of production facilities in late 2004. The first phase of a new plant in Guangzhou was completed in March 2005 and provides an additional 20,000 square metres of production facilities for expansion. By the end of year 2005, the second phase and third phase of this new plant should be ready and will provide at least another 40,000 square metres of production floor area for further expansion. In 2004, the Group invested approximately HK\$156.1 million in new plant and machinery to increase the Group's production capacity.

For year 2005 expansion plan, the Company has ordered new machinery of approximately HK\$103.6 million. By the end of year 2005, the Group's production capacity should be able to increase by 40%, as compared to the capacity in 2004.

Liquidity and Financial Resources

The Group's cash position is improved from HK\$15.8 million to HK\$63.8 million while bank overdraft decreased from HK\$20.6 million to HK\$14.2 million during the year.

Net current assets of the Group increased from HK\$7.9 million to HK\$22.0 million. Current ratio improved from 1.07 times to 1.12 times. These were attributable to the working capital generated from listing proceeds and operation.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's net debt to equity ratio dropped from last year's 44.3% to this year end's 39.0%, mainly due to the increase in equity as a result of IPO on 1 November 2004. Total outstanding bank borrowings as at 31 December 2004 is HK\$178.4 million (2003: HK\$87.1 million) and are denominated mainly in Hong Kong dollars, US dollars and Thailand Baht.

Interests of trade facilities are usually charged at floating rate associated with Hong Kong interbank offer rate or Hong Kong dollar prime rate.



Net cash generated from operations was HK\$47.1 million in year 2004, which was 3.7 times of year 2003's comparative figure. During the year the Group had net cash generated from financing activities amounting to approximately HK\$89.9 million, mainly attributable to fund generated from the IPO of approximately HK\$98.2 million and net proceeds from bank loans of approximately HK\$42.1 million.

The cash generated from the IPO and bank loans were mainly used to finance the purchase of fixed assets amounting to approximately HK\$82.4 million. Overall, the Group's cash position was improved by approximately HK\$52.5 million from last year.

Successful Listing

The Group successfully listed on the Main Board of the Stock of Exchange of Hong Kong Limited on 1 November 2004, and raised approximately HK\$98.2 million. This marks the recognition and support of the Group by the public, and also accelerates the growth of the Group's business.

Use of IPO Proceeds

The Company's shares were listed on the Stock Exchange on 1 November 2004. The gross proceeds from the IPO amounted to HK\$98.2 million and the net proceeds was approximately HK\$71.8 million after deducting relevant listing expenses.

As at 21 March 2005, the Group had applied the listing proceeds as follows:

	Planned as per prospectus dated 19 October 2004 HK\$'million	Actual application as at 21 March 2005 HK\$'million
- As capital expenditure in relation to the development project in Zengcheng City	31.6	31.6
- As capital expenditure relating to the acquisition of new machineries for upgrading production capabilities	26.0	13.8
- Research and development of new product range	3.5	2.2
- Expansion of overseas and China market	1.5	1.1
- As general working capital for the Group	5.0	23.1
	67.6	71.8

Capital Expenditure and Capital Commitments

During the year, the Group invested approximately HK\$156.1 million in fixed assets within which approximately HK\$78.4 million in factory and plant expansion, approximately HK\$74.6 million in machinery and equipment and the balance of approximately HK\$3.1 million in other fixed assets. To cope with increasing customers' orders in year 2005, the Group had contracted for HK\$138.9 million in new plant and machinery as at 31 December 2004 (31 December 2003: HK\$61.2 million).

Exchange Risks

The Group operates globally and is thus exposed to foreign exchange risk. The major revenue generating currency continues to be the US dollar while major raw materials, machineries and manufacturing overheads are settled in Japanese yen, which is subject to foreign exchange risk. Apart from the US dollar and the Hong Kong dollar which

MANAGEMENT DISCUSSION AND ANALYSIS

is pegged to the US dollar, certain open foreign exposures are hedged with currency contracts with a view to reducing the net exposure to currency fluctuations.

Dividend Policy

The Company intends to distribute not less than 30% of the Group's distributable profit as dividend in each financial year, but the actual amount of dividend and its percentage to the profit will be at the discretion of the Board of Directors and will depend upon our future operation and earnings, general financial condition, capital expenditure demand, and other factors that the Board of Directors deem relevant.



Human Resources and Remuneration Policies

As at 31 December 2004, the Group had 24 employees in Hong Kong and Macau (31 December 2003: 22) and 693 employees in Thailand (31 December 2003: 748) and 1,307 employees in China (31 December 2003: 979). The remuneration packages are generally structured with reference to market conditions and the qualifications of the employees. The salaries and wages of the Group's employees are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individual's merits as well as the results of the respective companies for which the staff work.

A share option scheme was adopted by the Company on 12 October 2004 which enables our Board to offer to any eligible participants option scheme for the purpose of providing incentives and rewards for their contribution to the Group.

Prospects

Precision components and parts can be found in homes, at workplace, in passenger cars and in buildings – in fact in almost every human environment. The Group has the expertise, know-how and experience to produce high precision components at worldwide recognised top standards for multinational enterprises in various industries for their assembling of industrial equipments and electronic devices.

Thanks to the increasingly high specifications and storage capabilities of HDD and its broadening application in consumer electronics such as MP3 and DVD plus HDD players, the Company expects that sales from precision components used for HDD industry will grow at a stable manner in future.

The Company is diversifying its business into fluid power industry and automotive industry which consume lots of precision components. Traditionally technology and know-how of manufacturing those high precision components as used in these industries are dominated by those multinational companies in the US and Europe. At present only limited manufacturers in Asia has the know how and experience to produce those high precision components in mass volume.

Following the Group's awarded QS9000 certification in 2002, the Group became a qualified supplier to several multinational hydraulic components makers and automotive components makers and sales to these industries are picking up.

To cope with customers' need, the Company started to develop some projects with existing customers that are more complicated and involve other technology and skill. Eventually the Company will supply more fully assembled parts or semi-assembled parts to customers, on top of the existing machining parts business.

With the increasing trend that foreign multinational companies are sourcing more precision and sophisticated parts and components from China or set up more joint ventures in China, there is a growing demand of the Group's high precision components and the Company will equip itself with more skilled labour and high tech machines so as to capture a fruitful return from this favorable trend.