MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Net sales for the twelve months ended 31 December 2006 increased moderately by 10.0% to HKD504.3 million as compared to the annual sales last year.

Gross margin dropped from 20.2% in year 2005 to 16.8% in year 2006. Selling and research and development expenses recorded a respective rise of 17.2% and 29.6% year on year.

Profit for the twelve months ended 31 December 2006 decreased by 24.6% as compared to the same period last year.

Cash generated from operations for the year was HKD56.5 million (2005: HK$56.40 million). The Company retired a loan of HKD62.5 million during the year, bringing down the debt to equity ratio from 0.61 as at 2005 year end to 0.34 as at 2006 year end. As at 31 December 2006, the Company had HK$26.5 million cash on hand and total banking facilities of HKD203.2 million (2005: HKD229.9 million), out of which only HKD57.1 million (2005: HKD94.9 million) was utilized. The Company believes that the strong cash from operations and available banking facilities shall be able to support the Company in its capital expenditure and future operations.

Basic and diluted earnings per share for the year ended 31 December 2006 were 3.7 HK cents as compared to basic and diluted earnings per share of 4.9 HK cents for the year ended 31 December 2005.

BUSINESS REVIEW

The Company recorded fourth quarter sales of HKD128.2 million, an increase of 16.6% when compared with the same period last year. Gross profit and net profit for the fourth quarter, however, fell 23.0% and 95.4% respectively when compared with the same period last year. Fourth quarter gross profit margin dropped from 18.7% last year to 12.3% this year due to lower production yield (arising from production of new products), lower sales mix of high margin LCD modules and competitive pricing pressure. Selling, administrative and research and development expenses as a whole increased very marginally over the same quarter last year.

Net sales for the six months ended 31 December 2006 were up 17.2% although gross profit and net profit were down by 10.7% and 31.1% respectively when compared to the same period last year. The mediocre second half-year results in 2006 was mainly as a result of the factors in relation to the fourth quarter of 2006 mentioned above.

Net sales for the twelve months ended 31 December 2006 was HKD504.3 million, which was approximately 10.0% above the annual sales of 2005. The growth came mainly from lower margin LCD panels while the sales of higher margin LCD modules increased only marginally. A major customer of the Company had reduced LCD module orders significantly during 2006 as a result of its own setback in the consumer market. The Company had solicited LCD module sales from new customers during the year to compensate for this loss satisfactorily. However, production of new products would entail lower production yield initially. In 2006, manufacturing costs increased especially the rise in overheads such as labour costs, which coupled with competitive pricing pressure were mainly responsible for the drop in gross profit margin and net profit margin from 20.2% and 8.2% in year 2005 to 16.8% and 5.6% respectively in year 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIOS

During the financial year ended 31 December 2006, cash per share was 3.5 HK cents (December 2005: 5.3 HK cents) and net asset per share was 22.1 HK cents (December 2005: 20.4 HK cents), based on 763,534,755 (December 2005: 763,534,755) issued ordinary shares.

As at 31 December 2006, the Group had, a cash to current liabilities ratio of 0.19 (December 2005: 0.27), a current ratio of 1.34 (December 2005: 1.19) and a total assets to total liabilities ratio of 2.14 (December 2005: 1.92), and approximately HK$26.5 million (December 2005: HK$40.6 million) of bank balances and cash.

As at 31 December 2006, the Company issued corporate guarantees amounting to approximately HK$138.8 million (December 2005: HK$146.0 million) to certain banks in respect of banking facilities granted to its subsidiaries. Total banking facilities available for the Group was HK$203.2 million as at 31 December 2006 (2005: HKD229.9 million), out of which HK$57.1 million (2005: HK$94.9 million) had been utilized. The gearing ratio (total bank borrowings/total shareholders' equity) was 0.34 (December 2005: 0.61). The fall in bank borrowings was attributable to retirement of loans previously raised for trade finance and factory expansion because the Company was able to gradually generate cash from its operation. The Group's borrowings are arranged at certain fixed rates over the usual inter-bank money market offer rates which were floating for periods ranging from one month to six months and they are denominated in Hong Kong Dollar, United States Dollar and Chinese Renminbi. The average interest rate paid during the year was 5.2% (2005: 4.1%). The maturity profile of the borrowings is set out in note 21 to the accompanying financial statements.

The Group recorded a debtor's turnover days of approximately 71 days for the 12 months ended 31 December 2006 (December 2005: 65 days) based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 365 days (December 2005: 365 days) and the number of months in that period over 12.

The Group recorded a creditor's turnover days of approximately 66 days for the 12 months ended 31 December 2006 (December 2005: 60 days) based on the amount of trade creditors as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (December 2005: 365 days) and the number of months in that period over 12.

The Group recorded an inventory turnover days of approximately 47 days for the 12 months ended 31 December 2006 (December 2005: 47 days) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (December 2005: 365 days) and the number of months in that period over 12.

FOREIGN EXCHANGE EXPOSURE

As the Company usually conducted its business transactions in Hong Kong Dollar and United States Dollar, and about 98.1% of the Company's cash as at 31 December 2006 (December 2005: 73.2%) is in either Hong Kong Dollar or United States Dollar, the management of the Company assessed that the exposure to exchange rate fluctuation not significant and evaluated that a commercial hedging exercise was not necessary at this stage. Nevertheless, the Company has been managing its foreign exchange risk through natural hedges when different assets and liabilities are denominated in similar foreign currencies. Meanwhile, the management of the Company has recognized the impact of the appreciation of Chinese Renminbi, though not significant, on the Company's operating costs in the PRC during the year 2006, and further considered any possible impact of depreciation of United States Dollar against Chinese Renminbi in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECT

Driven by the growth in the business from newly acquired customers, the Company plans for further expansion in manufacturing capacity and the necessary resources to support it, especially in the category of high margin LCD modules for a wide range of applications.

In light of the concentration risk of customers experienced in 2006, the Company shall continue to widen its customer base in 2007 geographically to cover Europe and Korea. The Company is also confident that production yield would improve in relation to new products over time and consequently the improvement will be reflected in its financial results.

FINAL DIVIDENDS

The Board declared an interim dividend of HK$0.02 per share and a final dividend of HK$0.02 per share for the year ended 31 December 2005. Total dividends declared for year 2005 represents a payout of 81.7% of the net profit earned for the year ended 31 December 2005. In view of the funding required for expanding operation and capital expenditure in the years ahead, the Board did not recommend a dividend for the year ended 31 December 2006.