Management Discussion and Analysis

FINANCIAL REVIEW

Turnover and gross margin

The Group recorded a substantial growth in turnover of approximately 33% in 2006 as compared with that of 2005 and reached approximately HK$3,558 million in 2006. Although the Group continued to benefit from the strong growth in sales of notebook computers, its gross profit margin dropped to approximately 14.2% in 2006 from 16.5% in 2005 because of higher material costs and appreciation of value of RMB.

Operating expenses

The Group's operating costs and other operating expenses, including administrative expenses, selling and distribution costs and other operating expenses was approximately HK$263 million, representing an increase of 20% in 2006 as compared with that of 2005. Administrative expenses increased from approximately HK$192 million in 2005 to approximately HK$242 million in 2006 which was mainly attributable to the pre-operating costs of the new production plant in Kunshan and the increase in staff costs, depreciation and office utilities for the expansion of the Group's operational scale. The operating expenses were closely controlled by the management at a low level as it only accounted for approximately 7.4% (2005:8.2%) of the Group's turnover.

Financial costs

Interests on bank borrowings increased significantly by approximately 65% to approximately HK$99 million in 2006 (2005: HK$60 million) as compared with that of 2005. This was mainly due to the increase in bank borrowings and the increase in the United States dollars ("USD") and RMB bank borrowing rate during 2006.

Profit attributable to equity holders

The profit attributable to equity holders of the Company increased to approximately HK$203 million in 2006 from approximately HK$192 million in 2005. The increase in profitability was mainly resulted from the substantial growth in turnover and increase in other income including exchange gains, gain on disposal of investment and interest income.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with internally generated cash flow as well as banking facilities provided by its principal bankers. As at 31 December 2006, the Group's cash and bank balances amounted to approximately HK$180 million, representing a decrease of 21% as compared with that of 2005 which was attributable to the increase in the pledged bank deposits of approximately HK$156 million in 2006 (2005: HK$31 million).

As at 31 December 2006, the Group had total bank borrowings of approximately HK$840 million, which declined slightly by 3% from that of 2005. Except for an amount of approximately HK$2 million (2005: HK$526 million) which will be repayable after one year, all the bank borrowings are matured within one year. The Group's bank loans with carrying amounts of approximately HK$798 million (2005: HK$829 million), approximately HK$30 million (2005: HK$37 million), and approximately HK$12 million (2005: HK$3 million) were denominated in USD, RMB and New Taiwan dollars, respectively.

During the year, the Group entered into trade receivables factoring facilities which improved significantly the Group's cash flow from operating activities to a net cash inflow position of approximately HK$472 million (2005: HK$177 million). The Group's net decrease in cash and cash equivalents of approximately HK$50 million (2005: net increase in cash and cash equivalents of approximately of HK$78 million) was primarily attributable to the repayment of bank loans, acquisitions of fixed assets and investments, and the increase of pledged bank balances which offset the cash inflows from operating activities.

The gearing ratio of the Group, calculated as total bank borrowings of approximately HK$840 million (2005: HK$869 million) over total assets of approximately HK$4,075 million (2005: HK$3,604 million), was 21%, representing a slight improvement from 24% in 2005.

PLEDGE OF ASSETS

As at 31 December 2006, the Group pledged land and buildings and machinery with an aggregate carrying amount of approximately HK$604 million and bank balances and time deposits of approximately HK$133 million as securities for bank facilities.

EMPLOYEES

As at 31 December 2006, the Group had approximately 26,000 employees and staff costs amounted to approximately HK$468 million (2005: HK$397 million). The Group's employees are remunerated in line with the prevailing market terms and individual performance, with the remuneration package and policies reviewed on a regular basis. Discretionary bonuses may be rewarded to employees after assessment of the performance of the Group and the individual employee. The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to fluctuation in foreign exchange rates. Since most of the Group's revenue is denominated in USD and most of the Group's expenses are denominated in RMB, the appreciation of value of RMB will adversely affect the Group's profitability. Accordingly, the Group has entered into forward foreign exchange contracts to mitigate the possible exchange losses relating to the fluctuations in the values of the USD and RMB in 2006.

USE OF IPO PROCEEDS

The Company issued 260 million new shares of HK$0.10 each at an offer price of HK$1.4 per share by way of international placing and public offer in Hong Kong ("New Issue"). The net proceeds from the New Issue ("Net Proceeds") after deducting the relevant expenses were approximately HK$322 million. Since the Company's listing on the main board of the Stock Exchange on 3 November 2005, the Group had utilized the Net Proceeds in accordance with that disclosed in the prospectus issued by the Company dated 25 October 2005, as to approximately HK$118 million for the acquisition of new machinery, approximately HK$114 million for acquisition of interests in companies engaged in mould manufacturing and production materials supplies, and approximately HK$77 million for the repayment of the outstanding bank borrowings. The balance of the Net Proceeds was applied as general working capital of the Group.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had capital commitments but not provided for in the financial statements in respect of the acquisition of land and buildings and machinery amounted to approximately HK$17 million (2005: HK$10 million).

CONTINGENT LIABILITIES

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