

Management Discussions and Analysis

(A) BUSINESS REVIEW ON ELECTROPLATING EQUIPMENT (UNDER THE TRADE NAME OF “PAL”)

Electroplating equipment - Printed Circuit Board (“PCB”) sector

As reported in last interim report, starting from last quarter of 2005, we received a succession of major orders which have subsequently turned into shipments for the Period Under Review. Over 50% of the orders were from Taiwan, then Hong Kong and South East Asia 25% and followed by USA and Europe 12%. The underlying driving force for the growth is the sales of mobile phones. According to a report of Gartner Dataquest, the number of units sold in 2005 was approximately 817,000,000 (an increase of 21% from 2004) and more than 1 billion mobile phones were made in 2006 with a total revenue of US\$144,000,000 (source : IDC).

In the mobile phone market, it is a non-stop race to produce new models with more and better functions but smaller in size. This trend has indeed worked to our benefit. Being a leader in this market, PAL has very often succeeded over its competitors, not by its size, but its commitment to R&D activities. We continuously drive to help our customers to plate finer tracks and small holes on a tiny PCB. The increase in the density plated tracks on a PCB means more functions can be incorporated into the mobile phone. As the market becomes more and more technology driven, the entrance barrier for copy cat becomes increasingly higher.

While we enjoyed increase in turnover, just like many other companies who have factories in China, we were also adversely affected by the increased and still increasing operating cost in China. Wages and salaries for workers and engineers on average increased by more than 10% last year. Experienced staff, especially at management level, is hard to find. The appreciation of RMB also increased our cost of general overhead. That is the main reason why the net profit after taxes attributable by electroplating segment did not increase in proportion to the increase in turnover.

Because of the increased operating cost in China, some of our customers also looked at possibilities of investing outside China. Japanese customers are more in favour of Thailand and Vietnam. India, particularly the areas around Bangalore and Chennai, is a favourite investment region for Western companies. We already have a subsidiary in Thailand and an exclusive agent in India of over ten years. Due to the familiarity of these locations, we believe we have advantages over our competitors.

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Electroplating equipment - Surface Finishing ("SF") sector

We started to branch into this sector in 2004. In 2004, sales to SF sector accounts for 13% of gross sales, 28% for 2005 and 6% for 2006. Based on the confirmed orders for first half of 2007, sales to SF sector accounts for 20%. We shall continue to expand into this sector by co-operating more with other industrial players and build up our reputation by attending exhibition, delivering technical presentations and working with renowned customers. We have recently invited Iranian Electroplating Society to visit our factory in China. We foresee that with the high oil price situation and rising middle class, the Middle East could be the next high growth area in surface finishing.

As advised in last interim report, our core customer base is still the first tier plater who plate automobile parts. We position ourselves as a world-class equipment provider providing quality electroplating machine and turnkey services. In order to be a successful turnkey service provider, we will continue to enlarge our partnership network. During the last few years, we have partnered with various strategic industrial partners including post-plating systems specialist WMV (Germany), waste water treatment experts called Darco (Singapore), plating barrel and water saving system manufacture Hardwood. etc

While the plating technique is relatively less complicated than those required in PCB sector, SF customers tend to pay more attention to our quality control, risk assessment capabilities and machine capabilities in eco saving (for both electricity and water). We will continue to strengthen our capabilities in these areas.

Other long term investments

There are a few substantial but long term investments to be made in coming two to three years. The Company's headquarters situated in Tai Po will be renovated phase by phase. The upgrading of office area with a young, energetic look is expected to be completed this year. After the office is refurbished, we shall start working on the R&D area and then the warehouse area.

We have also recently spent several million dollars in upgrading the drawing software from 2D (Autocad) to 3D (SolidWorks). Training is now being arranged and full use is expected in August this year. The introduction of 3D drawing will help to minimize design errors as the software has a powerful simulation function

The company has been using a self-built MIS material processing system for last 20 years, in order to enhance our time-to-market capability, the Board of the Company has approved an investment in a Enterprise Resources Planning system called ERP. We are now at planning stage.

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(B) BUSINESSES OPERATED BY MAJOR ASSOCIATED COMPANIES

The contribution of the associated companies towards the operating profit for the Period Under Review was HK\$ 9,016,000. The contribution mainly came from Intech Machine Co., Ltd ("IML") which the Group holds approximately 28.4%. The wet processing machinery designed and built by IML is targeted at two markets, PCB and FPD. IML has introduced 6 sigma management system since 2005 and the effectiveness is quite obvious. They are one of the model companies in 6 sigma introduction.

(C) OUTLOOK

After a hectic and blooming year, we would expect our electroplating customers may require time to fill up the production capacity invested in 2006. The year 2007 may face a slight slow down, particularly in the PBC sector. On the other hand, we see a business balance bounce back in the SF sector. This proves that our strategy to expand into different business segments using our electroplating expertise in order to smooth the cyclical effect of PCB sector is right. We will also continue to invest resource in our internal R&D teams and actively search for co-operation with appropriate technical partners from overseas. Market diversification and technology building are our long term focus. We drive to provide steady but growing revenue and profit to our shareholders.