FINANCIAL REVIEW

The Group continued to report good financial performance for the year ended 31 December 2006 ("FY2006"). Despite the many challenges faced by all electronic manufacturers, including the Group, in FY2006, the Group managed to grow its revenue to a new record high of HK$1,239,119,000, approximately 12.2% higher than the HK$1,104,134,000 for FY2005. For the fifth consecutive year, the Group has broken its all time highest revenue records. This continued revenue growth was mainly attributable to the increase in sales of Aluminum Electrolytic Capacitors ("E-Caps") to existing and new customers, which showed an increase of 12.8% to HK$1,182,429,000. Revenue from the trading of raw materials increased slightly by 2.0% to HK$56,690,000.

Gross profit for the year increased by 18.3% to HK$313,823,000, representing a gross margin of 25.3%, against 24.0% for FY2005. During the year, total production costs surged as a result of: (i) sharp increases in direct raw material costs as a result of rising commodities prices such as petroleum, copper and aluminum; and (ii) the rise of labour costs, electricity and other production overhead expenditures. To counteract these adverse factors, the Group had launched a series of profit improvement initiatives such as: (i) processing of aluminum foils in-house; (ii) enhancing product-mixes by focusing more on the sale of E-Caps that consumes relatively less raw materials but offer higher margin; and (iii) shifting part of the incremental costs to customers by raising selling prices. The results of these have been successful as reflected in the improvement in gross margin for the year.

Profit for the year attributable to equity holders of the Company was up by approximately 27.1% to HK$121,657,000, representing a net margin of 9.8%, which compared with 8.7% for last year.

Basic and diluted earnings per share for the year were HK28.48 cents and HK27.76 cents respectively, which compared with HK24.76 cents and HK22.72 cents respectively for last year.

BUSINESS REVIEW

Electronic components

Sale of Electronic Components, mainly Aluminum Electrolytic Capacitors ("E-Caps"), accounted for 95.4% of the Group revenue in FY2006. During the year, revenue from the sale of E-Caps grew by 12.8% to HK$1,182,429,000. Despite the global E-Cap market was merely growing by approximately 2.3% (by value) in FY2006, the Group continued to out-perform the market growth rate. For the five years ended 31 December 2006, the Group has achieved a cumulative annual growth rate for revenue of 26.9% per annum. The revenue growth in FY2006 has been mainly driven by the increase in sales orders from customers and the rise in average unit selling prices.

During FY2006, more orders were received from the Group's existing customers as well as new global customers based in the USA and Europe, most of whom are global technology leaders in the computing field. Sales had been booming in several industry segments with particularly strong performance in the computer motherboard and power charger industry segments. Consumer electronic products segment such as game consoles, audio and video products; home appliances; and industrial equipment are also performing as expected.

To cope with the increased sales demands, the Group has continued to expand its production capacity in FY2006. As at 31 December 2006, the total production capacity of the Group reached 790,000,000 pieces per month, which compared with 710,000,000 pieces a month at 31 December 2005. This horizontal expansion has been caused by the accelerating production capacity in the existing Dongguan facilities with present production capacity of 590,000,000 pieces per month and the new Wuxi facility with present production capacity of 200,000,000 pieces per month.

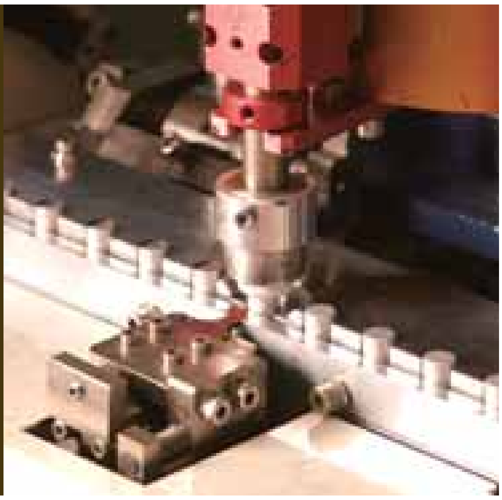
The Group also made major advancement on the product front. The launch of the brand new Conductive Polymer Aluminum Solid Capacitors ("Polymer Caps") series represented a major technological breakthrough. Polymer is hundreds of times more conductive than the electrolytes used in the traditional E-Caps. Besides, Polymer Caps are known for their reliability, durability, adaptability to high temperatures environments and added safety measures. Polymer Caps are mainly used in high-speed computer mother boards and advanced consumer electronic products. Shipment of these products already started in June 2006 but larger scale production will commence in 2007 when more production space is available at the new Dongguan manufacturing facility.

Raw materials

With the Group's production volume expanded, its demand, particularly high quality aluminum foils for the production of E-Caps, has also risen. Aluminum foil is the most critical raw material component used in the production of E-Caps and accounts for 40% to 60% of the total cost of the E-Caps product. In the past, these aluminum foils were purchased from overseas vendors. Starting from January 2006, the Group produces aluminum foils through its wholly owned foil factory located in Qingyuan. This factory is now capable of fulfilling over 20% of the Group's internal consumption. This upstream vertical integration process delivers the following benefits to the Group: (i) it assures a stable supply of aluminum foils in a tight raw material market; (ii) profits made by this aluminum foil factory goes directly into the Group's gross margin; and (iii) it has strategic value as proprietary technology or know-how in processing aluminum foils can be contained within the Group. As substantial raw materials, i.e. aluminum foils, were consumed by the Group in 2006, the revenue from the trading of raw materials has merely increased by 2% to HK$56,590,000 (2005: HK$55,584,000).

Man Yue and the environment

All the manufacturing facilities of the Group comply with the relevant environmental regulations in the places where these facilities operate. In addition, during the year, new equipments were purchased and a comprehensive set of policies and procedures were established to ensure that the Group's products completely satisfies the "Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment" ("RoHS") requirements for the European Community and similar requirements in other major markets. The Group had also made it mandatory for all vendors and business partners to comply with the relevant environmental requirements.



Research and Development

Apart from the successful launch of the Polymer Caps in 2006, the Group also made progress in launching several hot items of E-Caps. These new products include: Long-life Screw Type or Snap-in series, Long-life V-Chip series for mobile phones and PDAs etc. The co-operation with the Research Institute of the Tsing Hua University in Shenzhen ("Shenzhen Tsinghua") continues to allow the Group to maintain a leadership role in the technological development in the capacitors' field.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group's gross borrowings in respect of bank loans and finance leases amounted to HK$370,850,000 (2005: HK$313,000,000), of which HK$144,853,000 was repayable within one year, HK$151,415,000 was repayable within one and two years and HK$74,582,000 was repayable between three and five years. After deducting cash and cash equivalents of HK$90,636,000 (2005: HK$82,395,000), the Group's net borrowing amounted to HK$280,214,000 (2005: HK$230,605,000). The increase in borrowing was mainly used to finance capital expenditure and investment in a jointly-controlled entity. Shareholders' equity at 31 December 2006 was HK$606,303,000 (2005: HK$444,441,000). Accordingly, the Group's net borrowing to shareholder's equity ratio reduced to 46.2% from 51.9% in last year.

Net cash inflow from operating activities during the year amounted to HK$128,611,000, which compared with HK$95,183,000 for last year. This figure represents profit before tax of HK$135,523,000, adding back adjustments for non-cash items such as depreciation and amortisation of HK$70,256,000 and deducting net increase in working capital and other adjustments of HK$77,168,000. The net increase in working capital is mainly caused by the increase in trade debtors in line with the business expansion of the Group.

FY2006 is also a year for major capital investments. Accordingly, the Group's net cash outflow for investing activities for the year was increased to HK$191,050,000, which compared with HK$152,143,000 for last year. These investing activities were mainly represented by capital expenditure and investment in jointly controlled entities. The investing activities were partly financed by the net cash inflow from operations and partly by additional bank loan finances.

Despite the fact that FY2006 is a year for large-scale capital expenditure investments, the Group's net gearing ratio has dropped from 51.9% in FY2005 to 46.2%. In addition, with the Group's rising profitability trend, earnings before interest, tax, depreciation and amortization ("EBITDA") of HK$203,087,000 for the year which compared with HK$155,067,000 for last year, the Group is expected to generate adequate cash from its operations to repay its liabilities as and when they fall due. Management also expects that the gearing ratio for 2007 will be lower than 2006.

Inventory turnover days for FY2006 was improved to 81 days against 97 days in FY2005. The debtor turnover days for FY2006 was slightly increased to 85 days from 78 days in last year, which is primarily due to expanded business activities in the second half of 2006. Creditor turnover days in FY2006 were approximately 68 days, which is shorter than 77 days in last year.

The Group's financial statements are denominated in Hong Kong dollars. The Group conducts its business transactions mainly in Hong Kong dollars, Renminbi, United States dollars and Japanese yens. As Hong Kong dollar remained pegged to United States dollar, there is no material exchange risk in this respect. The Group receives Renminbi from its customers and at the same time incurs Renminbi expenditures. After netting off the receipt with payments, there was a minor exchange rates exposure in Renminbi. Accordingly, the Group is considering to enter into cash flow hedging contracts to stabilise the exchange rates in converting Renminbis. The Group monitors its foreign exchange exposure in Japanese Yens by entering into cash flow hedging forward contracts. Credit risks are mitigated by credit insurance policies and other kinds of credit protection initiatives.

EMPLOYMENT AND REMUNERATION POLICY

At 31 December 2006, the Group employed 93 employees in Hong Kong (2005: 103) and employed a total work force of approximately 5,769 (2005: 5,445) inclusive of its staff in China and overseas offices. Total headcount increased during the year due to expansion of the Group's business in Dongguan and Wuxi. Salaries, bonuses and benefits were determined with reference to market terms and the performance, qualifications and experience of individual employees.

PROSPECTS

We expect to see a stronger growth for our business in FY2007. Firm orders were received from existing customers as well as new customers that we acquired in 2006. Strong sales are anticipated in the computer and peripheral, digital consumer electronic and game consoles, power supply equipment, flat panel plasma or LCD televisions, and household and industrial electrical appliances.

On the manufacturing front, we expect to be operating at full capacity for most of FY2007. To cope with increased sales demands, we shall continue to expand our production capacity. In Dongguan, the brand new centralized manufacturing facility has just been completed. The Group is now moving into this new 1.1 million square foot manufacturing facility on a stage by stage basis. The present Dongguan production capacity is approximately 590,000,000 pieces per month. The Group expects that with the operation of the new Dongguan manufacturing facility, the Group can generate up to 690,000,000 pieces per month in Dongguan by the end of this year. The Group will further expand the production capacity in this new facility in the next two years until it actualized its maximum potential (i.e. producing over 1,000,000,000 pieces per month). In Wuxi, the production capacity for phase 1 has already reached its peak (producing up to 200,000,000 pieces a month). The Group will start to plan the Phase 2 development of this Wuxi facility by the end of 2007. In order words, towards the end of 2007, the Group will be capable of producing up to 890,000,000 pieces per month.

Expansion of production capacity will only be meaningful if the Group can secure abundant and stable supply of raw materials. We expect the supply of aluminum foils in the market will remain tight in 2007 and after. Accordingly, we will speed up and expand our capability of producing aluminum foils for our own consumption. We will add machinery to expand the aluminum foils production lines. By the end of 2007, we hope we can produce up to 50% of the aluminum foils for the Group's internal consumption. All these upstream vertical integration processes will allow the Group to secure the supply of high quality aluminum foils and improve its profit margin.

The Group has commenced mass production of Polymer Caps in last year. More machinery will be added in the new Dongguan facility to boost the production of Polymer Caps. As the global supply of Polymer Caps is still very tight, the Group will continue to enjoy first movers' benefits, i.e. higher price and higher margin, in 2007 and the years beyond.

Although the Group is facing challenges such as on-going pricing pressure from customers; rising costs of raw materials, labour, energy and manufacturing overheads; and the shortage of labour forces in Mainland China, the Group is confident about its future development. The Group will relentlessly pursue both horizontal and upstream vertical growth in the years to come. With the continuous revenue and profit growth trend, we expect that the Group to out perform some of the key competitors in Japan and Korea and take its place among the five largest E-Cap manufacturers in the world by 2009.