

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the last four months of year 2001, worldwide economy reversed and we experienced a dramatic and prolonged business contraction in electronics market, especially softened demand in data processing and telecommunication markets driven by weakening global economic conditions.

Markets remain challenging overall. However, customers' order activities were generally good in the first six months of year 2002, particularly for our high reliability products, military and aerospace applications. Automotive markets have been stable. Finally, the electric power distribution market, driven by infrastructure builds and upgrades worldwide, remains strong. We are optimistic of the continuation of a slow, gradual recovery into the second half year, despite continued weakness in the telecommunication equipment market.

Quoting activities in our US and European components business have been accelerating. Backlog has stabilized, although business conditions remain difficult. The Group is cautiously optimistic for the coming years.

The Group recognized the actual and potential severity of these downturns and took measured actions to right size her business and cost structure. As the markets continued to spiral downward further in the first half year of 2002, we cut back capital spending, minimized working capital requirements, reduced manufacturing employment by more than one-third and limited operating expenses.

The Group achieved positive cash flows throughout the first half year of 2002. We believe that our aggressive cost-down activities have positioned us very well for the future. In the next cyclical business upturn, our cost structure will allow us to produce strong operating margins, maintain the significant strength of our balance sheet, and create a more valuable enterprise for our shareholders.

Financial Review

For the six months ended 30 June 2002, the Group's turnover, profit attributable to shareholders and earnings per share amounted to approximately HK\$57 million, HK\$2 million and cents 0.52 respectively. These represented decreases of 46%, 92% and 94% respectively compared to those of the corresponding period last year. The decrease was mainly caused by continuing poor market sentiment and market conditions brought forward from last year, especially in the telecommunication industry which contributed over 40% of the Group's turnover.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2002, the Group had a total shareholders' equity of approximately HK\$198 million (31 December 2001: HK\$206 million), and cash and cash equivalents of approximately HK\$83 million (31 December 2001: HK\$81 million), which were predominately denominated in Hong Kong dollars and US dollars.

As at 30 June 2002, the Group had aggregate banking facilities of approximately HK\$11 million and the Group's total bank borrowings were bills payable of approximately HK\$0.2 million (31 December 2001: HK\$0.1 million). The Group's gearing ratio, measured on the basis of bank borrowings as a percentage of total shareholders' equity, was less than 0.1 percent.

The Group had little exposure to foreign exchange fluctuations as most of its receipts and payments are in US dollars.

Employees and Remuneration Policies

As at 30 June 2002, the Group employed approximately 1,530 personnel around the world, with approximately 110 in Hong Kong, 1,400 in the PRC and 20 overseas. The Group has a staff education sponsorship program and also provides training courses to staff on operational system, product and technology development, and product safety.

Contingent Liabilities

As at 30 June 2002, there is bank guarantee in lieu of utility deposits of approximately HK\$0.1 million (31 December 2001: HK\$0.1 million).