

## MANAGEMENT DISCUSSION & ANALYSIS

### Business Review

The Group's sales increase was mainly driven by stronger growth in the US market for high reliability products and power conversion markets for the first six months of year 2003.

Growing unit volumes and stable revenues of the Group indicates a continuation of the slow recovery in electronics markets especially in the US. The Group showed an improvement in operating profit for the first half year of 2003. The Directors believe that it is reflecting the success of its cost reduction efforts despite the ongoing deflationary pressure on the selling price of our products.

Markets remain challenging overall including cyclical changes in the markets, price reduction of our products and technology changes. However, customers' order activities generally increase, particularly for our high reliability products, military and aerospace applications, and medical equipment requirements. The Group is optimistic of the continuation of a slow and gradual recovery into the second half year of 2003 and in the future.

Quoting activities in our US and European components business have been accelerating. Backlog has increased although business conditions remain difficult.

The Group recognizes and anticipates that the electronics industry will continue to be competitive. In order to compete and expand business growth, it is increasing necessary for higher productivity and efficiency in production and overheads cost reduction.

The Group remained strong in its cash position. The Directors believe that our aggressive cost-cutdown activities have positioned us very well for the future. In the next cyclical changes in the markets we serve, 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 2003, the Group recorded a turnover of approximately HK\$67.6 million, which represented a growth of 18% as compared to HK\$57.3 million of the same period last year. The increase was mainly due to the gradual recovery of the telecommunications and technology equipment markets around the world, especially in the US market. The US market is the largest market of the Group, which contributed around 74% of the Group's turnover for the half year ended 30 June 2003. Sales in the US market increased by 56% compared with the corresponding period last year. Moreover, telecommunications, high reliability products, technology equipment and power conversion markets play a significant role in the Group's sales performance, representing over 60% of the Group's turnover.

For the period under review, the Group reported a profit attributable to shareholders and earnings per share of approximately HK\$7.7 million and cents 2.4 respectively as compared to HK\$1.7 million and cents 0.52 for the same period in 2002. The significant improvement in operating results was largely due to the growth in turnover, increase in operational efficiency and the benefits brought about by economies of scale due to higher production volumes.

However, the market for electronic components trading remained competitive which affects the selling price of our products. As a result, there is only a slight improvement in gross profit margin from 37% in the first half of 2002 to 38% of the corresponding period in 2003.

With the improvement of market sentiment and the expansion of customer base, it is expected that the Group will attain a gradual business growth for the rest of the year.

### **Liquidity , Financial Resources and Capital Structure**

As at 30 June 2003, the Group had a total shareholders' equity of approximately HK\$172 million (31 December 2002: HK\$177 million), and cash and cash equivalents of approximately HK\$53 million (31 December 2002 : HK\$65 million), which were predominately denominated in US dollars, Euro and Hong Kong dollars.

As at 30 June 2003, the Group had not taken any banking facilities. With the above cash on hand, the Group has adequate resources to meet its working capital requirements in the near future.

As at 30 June 2003, the Group had no borrowings (31 December 2002: HK\$Nil). As a result, no gearing ratio was calculated.

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 2003, the Group employed approximately 1,330 personnel around the world, with approximately 100 in Hong Kong, 1,210 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**

There is no contingent liability as at 30 June 2003 (31 December 2002: HK\$Nil)

### **Capital Commitments**

The Group has no authorised and contracted capital commitment as at 30 June 2003 (31 December 2002: less than HK\$0.1 million).

### **Updated Information on Public Shareholding and Onboard Litigation**

Trading in the shares of the Company has been suspended since 15 August 2002 due to the public float issue of the Company and the litigation of the Company's substantial shareholder, Onboard Technology Limited. Details of which have been published by the Company's announcement dated 19 September 2003.