



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Turnover of the Group dropped by 3.1% to approximately HK\$182,824,000 for the six months ended 30 June 2003 due to discontinuance of the Group's business in the provision of warehouse and freight forwarding delivery services since January 2003.

Profit attributable to shareholders has decreased by approximately HK\$10,872,000 to approximately HK\$4,316,000. The drop in the profit from the share of the Group's copper wire joint venture by approximately HK\$4,898,000, an increase in financial costs of approximately HK\$2,972,000 and pressure on selling prices of the Group's products, have resulted in the drop in the Group's turnover.

Telephone accessories and power cords

Sales recorded by the division has slightly increased. However, competition in the market is keen and profit has decreased due to downward pressure on the selling price of the products.

Adaptors and electronic products

Turnover for this division increased as a result of the securing of new customers. Profit is recorded in the period under review and the performance improved significantly from successful development of new products as compared to corresponding period last year.

Printed circuit boards

The output and profit of the Dongguan factory has been adversely affected by the fall in the demand in the market for advanced technology and quality printed circuit boards.

The management has made effort to enhance control on the efficiency of production process and yield rate to improve the division's performance.

High precision metal components

The division continues to develop a market for non-computer parts and new products. Profit has been achieved as a result of business growth for the period under review.

Discontinuous business – Freight forwarding and delivery services

The Group has disposed of its loss-making warehouse business to a third party at HK\$2,430,000 and discontinued its freight forwarding and delivery services business in January 2003.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Jointly controlled entity – copper wire

During the second quarter of 2003, the Severe Acute Respiratory Syndrome ("SARS") broken out in Asia and hit business of the joint venture's customers. The profit performance of the joint venture has been affected by a drop in turnover.

Associate – Tianjin Printronic Circuit Corporation

Under a reorganisation scheme implemented in February 2003 to rationalise the structure of Tianjin Printronic Circuit Corporation ("TPC"), the Group's interests in TPC was reduced to 28.74% from 40% following an injection of new capital by the other parties. After the reorganisation scheme, the financial structure of TPC is strengthened and the operation becomes more stable. Since the Group is now able to exercise significant influence over TPC, the Group has reclassified its investment in TPC as an associate from long-term investment since February 2003.

During the period under review, TPC has achieved a growth in turnover and profit as compared to corresponding period last year.

New Project – Photomasks

In April 2003 the Group commenced the photomask manufacturing business. The purchase of factory premises at Tai Po Industrial Estate was completed on 7 May 2003. Purchase contracts for all major machineries and equipment have been concluded. Recruitment of key technical and management staff has substantially been completed. The Group is well prepared for establishment of the photomask business in the second half of the year.

Prospects

The Group has implemented steps to enhance control over operating efficiency and quality control to improve its performance. It is expected the performance of the Group will be improved in the second half of the year.

At the same time, development of the Group's photomask business is in good progress. As the installation of cleaning room facilities has been completed, shipment and installation of machineries and equipment have commenced since August 2003. It is expected that installation of equipment will be completed and trial run of the factory will commence in the fourth quarter of 2003. The Group is committed to the photomask business development as the first step in its diversification strategy and an additional source of profit in the coming years.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and financial resources

At 30 June 2003, the Group's gearing ratio (total borrowings divided by equity) has decreased to 0.46 (31 December 2002: 0.50) whereas current ratio (current assets divided by current liabilities) has improved to 5.12 (31 December 2002: 4.20).

Bank loans had decreased by approximately HK\$17,327,000 to HK\$42,872,000 as at 30 June 2003. As at 30 June 2003, the Group had outstanding convertible bonds with an aggregate amount of HK\$200,000,000, bearing interest at a fixed rate of 2.5% per annum.

At 30 June 2003, the Group had capital commitments contracted but not provided for amounting approximately HK\$368,763,000 (31 December 2002: HK\$328,000).

The Group has been negotiating facilities to provide additional funding for its capital commitment and has already secured further facilities over HK\$200,000,000 from banks and leasing companies since 30 June 2003.

After taking into account the existing cash resources and unutilised banking facilities, the directors are of the opinion that the Group will maintain an adequate liquidity position throughout 2003.

Exposure to fluctuations in exchange rates

Exposure to fluctuation in exchange rates is immaterial to the Group's financial result as both the Group's borrowings and revenue are mostly denominated in Hong Kong Dollars or United States Dollars.

Capital structure

There were no movements in the ordinary share capital of the Company during the period.

Contingent liabilities

The contingent liabilities of the Group, mainly from guarantees for banking facilities granted to a jointly controlled entity, decreased from approximately HK\$83,153,000 as at 31 December 2002 to approximately HK\$62,196,000 as at 30 June 2003.

Pledge of assets

As at 30 June 2003, certain of the Group's assets with an aggregate net book value of approximately HK\$232,877,000 (31 December 2002: HK\$63,600,000) were pledged to secure general banking facilities granted to the Group.

**MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

Employees and remuneration policies

The Group had a total of approximately 3,240 employees as at 30 June 2003.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration to motivate and retain existing employees and at the same time to attract potential employees. Remuneration packages are structured in such a way that take into account local practices in the various geographical locations in which the Group and its associates operate. These remuneration packages include basic salaries, allowances, retirement schemes, service bonuses, fixed bonuses, performance related payments and share options where appropriate.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2003 (2002: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited or otherwise) during the period under review.