

# Management Discussion and Analysis

## FINANCIAL POSITION

At 31 December 2003, shareholders' equity was HK\$736.7 million (30 June 2003 – restated: HK\$682.5 million). The increase was mainly due to increase in turnover and profitability during the Period.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained healthy financial position. The current ratio was 1.1 at 31 December 2003. The Group used internally generated funds and banking facilities to finance its operation and business developments. During the Period, the Group generated a net operating cash inflow of HK\$203.8 million.

At 31 December 2003, the Group had cash on hand amounting to HK\$224.8 million (30 June 2003: HK\$204.1 million) and total bank borrowings of HK\$904.2 million (30 June 2003: HK\$788.6 million). Increase in bank borrowings was due to new bank loans drawn to fund the working capital requirement and capital expenditure for expanded production of PCB business. Of the total bank borrowings, about HK\$632.4 million was repayable within one year and HK\$271.8 million was repayable after one year.

The bank borrowings were unsecured, negotiated at floating interest rates and denominated mainly in United States and Hong Kong dollars. To reduce exposure in fluctuations in interest rates, the Group had an US Dollar average SIBOR interest rate SWAP contract covering approximately HK\$139.8 million and a fixed interest rate contract covering HK\$69.9 million of the long term bank loans balances as at 31 December 2003. Management has also negotiated another fixed interest rate contract in place for hedging HK\$54.4 million of the long term bank loans effective in June 2004.

## SHARE CAPITAL

During the Period, 3,180,000 employee share options were exercised at an exercise price of HK\$0.91 per ordinary share. Accordingly, the number of issued share capital of the Company has increased from 1,193,612,408 shares to 1,196,792,408 shares and the share premium account has increased by HK\$2.6 million.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY

The Group had no material acquisition and disposal of subsidiary and associate during the Period.

## EMPLOYEES

At 31 December 2003, the Group had approximately 13,000 (30 June 2003: 10,400) employees worldwide. The increase in number of employees was mainly due to the expanded production of the PCB and LCD plants. There was no change in the

remuneration policies. The employees are to be remunerated based on work performance, experiences and prevailing industry practices of region. Employee benefits related to provident funds, training scheme, discretionary bonuses, share option schemes remained the same.

### **ASSETS AND DEPRECIATION**

Depreciation for the plant and machinery for the Period was lower than the Previous Period due to a change in depreciation methodology and a change in the estimated useful lives adopted by PCB business. The net impact of the change was an increase in the Group's net profit attributable to shareholders for the Period by approximately HK\$19.0 million. More details are given in notes to condensed consolidated financial statements.

The Group's assets were free from charge.

### **SIGNIFICANT INVESTMENTS**

During the Period, the Group contributed approximately HK\$78.6 million to capital of three PCB plants and HK\$0.98 million to a jointly controlled entity in China pursuant to the joint venture agreements. These investments were made from funds generated from operations and bank borrowings.

### **GEARING RATIO**

The gearing ratio, calculated by dividing total net bank borrowings (i.e. total bank borrowings less bank balances) to total shareholders' equity, was 92.2% as at 31 December 2003 (30 June 2003 – restated: 85.7%).

### **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES**

Management used forward exchange contracts to hedge foreign exchange risk of trade payables as a result of material purchase denominated in Japanese Yen. As at 31 December 2003, the Group had outstanding forward exchange contracts totaling JPY133.7 million (30 June 2003: JPY94.8 million).

### **CONTINGENT LIABILITIES**

The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance. Possible amount as at 31 December 2003 was HK\$3.4 million (30 June 2003: HK\$2.6 million).