

Chairman's Letter



Mr. Thomas Tang Koon Yiu
Chairman and Managing Director

Starting from the beginning of FY2004, the global economy has been recovering steadily, with rebound in both computer sector and communication sector. Our Group also achieved encouraging results that all of our three major businesses recorded turnover growth, totalling HK\$3,214.1 million, up 42.4%.

RESULTS

The world's electronics industry has recovered with sustained growth under an optimistic atmosphere for the year under review. We are pleased to see that all of the three businesses of Printed Circuit Boards ("PCB"), Liquid Crystal Display ("LCD") and Magnetic Products reported increase in sales during the financial year ended 30 June 2004 ("FY2004"). Consolidated turnover of the Group amounted to HK\$3,214.1 million, up 42.4% over the last financial year ended 30 June 2003 ("FY2003").

Profit attributable to shareholders grew by 286.9% to HK\$145.0 million.

Basic earnings per share amounted to 12.1 Hong Kong cents, up 279.3%.

FINAL DIVIDEND

The Board recommends a final dividend of 2.4 Hong Kong cents (2003: 1.5 Hong Kong cents) per share for the financial year ended 30 June 2004. Together with the interim dividend of 1.6 Hong Kong cents (2003: 1.5 Hong Kong cents) per share, a total of 4.0 Hong Kong cents per share will be distributed for the financial year 2004. The final dividend, if approved at the forthcoming Annual General Meeting, will be payable to shareholders whose names appear on the Registers of Members at the close of business on 12 October 2004.

Dividend warrants, if approved, will be sent to shareholders on or about 15 October 2004. The Registers of Members will be closed from 8 October 2004 to 12 October 2004, both dates inclusive. In order to qualify for the final dividend, transfers accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 7 October 2004.

BUSINESS REVIEW

Printed Circuit Boards

The revenue of the PCB Business for FY2004 was HK\$2,750.3 million, HK\$839.3 million or 43.9% higher than in FY2003. The operating profit was HK\$367.2 million, representing a growth of HK\$224.4 million and 157.2% over FY2003.

Starting from the beginning of FY2004, the global economy has been recovering steadily, with the computer sector began in July 2003 and the communication sector follow up in October 2003.

During the year under review, there were usual short-term seasonal adjustments for different industrial sectors. The PCB demand for computer sector adjusted downward during December 2003 through March 2004 after the Christmas season spending was over. The PCB demand for communication sector also started to slow down around April 2004 after a continuous business growth of almost six months.

The ongoing Group's strategy is to strive for equal market participation in each of the three key industrial sectors, namely the computer and computer peripheral, communication, and consumer and automotive. As a result, the PCB Business was able to smooth out short-term seasonal slowdown in each sector through the development of new businesses or by obtaining higher allocation of businesses from other sectors.

Through outsourcing of manufacturing as well as components sourcing in China, the PCB Business was able to enjoy higher growth as compared with other PCB manufacturers in higher cost countries.

Due to the increasing PCB demand in China, our shipments to the PRC had increased from FY2003 HK\$489.0 million (25.6% of PCB turnover) to FY2004 HK\$818.4 million (29.7% of PCB turnover).

Our PCB backlogs increased that the Book-to-Bill ratio as at 30 June 2004 stood at above 1.01 despite higher shipments with the benefit of capacity expansion.

Although there were short-term adjustments in the communication sector, the supply and demand for PCBs in China region remained relatively balance.

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Our PCB average selling prices ("ASPs") for FY2004 were higher than those in FY2003 by around 3.0% primarily due to the improvement in layer count mix following the improvement in the computer, computer peripherals, consumer and automotive sectors and the FY2004 ASP level rebounded back to the Q3 FY2003 ASP level.

For FY2004, our PCB layer count mix had significantly improved due to improvement in communication, notebook and higher-end server businesses. As a result, we gained shares on microvias and 10-layer above PCBs by 3.2% and 6.3% while we lowered our reliance on 2- to 4-layer, 6- and 8-layer products by around 5.3% and 2.8% and 1.4% respectively.

In view of demands arising from new business developments, the PCB Business had to expand capacity rapidly. We spent around HK\$714.8 million in capital expenditure and reached around 760K sq ft of PCB output per week as at 30 June 2004, a jump of 20% when compared to 30 June 2003. Raw material supply was tight, prices moved up further towards the end of FY2004 but throughout the whole year were mitigated by corresponding increases in selling prices.

Liquid Crystal Displays

Our development of LCD monochrome modules in the last two years has started to see results with surge in LCD module shipments during the year under review. LCD module sales grew from less than 20% of the total sales of the LCD Business in FY2003 to more than one-third of the total sales in FY2004.

Despite the recovery in the electronics industry, competition remained keen and we saw continuous price erosion on both flat panel and LCD monochrome modules. In addition, the prices of integrated circuits, a key material of LCD module, went further upward as a result of tight supply following the global economic recovery.

As a result, the turnover of the LCD Business for FY2004 reached HK\$331.8 million, a surge of 38.5% comparing with HK\$239.5 million in FY2003. Operating profit was HK\$21.0 million, about 17.6% lower than HK\$25.5 million in FY2003.

To penetrate into rapidly expanding colour module market, the Group had in Q4 FY2004 successfully submitted our color STN module samples to our customers in both cellular and cordless phone markets.

Magnetic Products

The Magnetic Products Business had also benefited on the electronics industry recovery as well as our strategic product focus on high value-added magnetic integrated connectors. The turnover of the Magnetic Products Business went up by more than 23.4% from FY2003 of HK\$106.9 million to HK\$131.9 million in the current financial year.

Selling price of our products continued to erode and the rising labour and operating costs explained the drop in operating profit from FY2003 HK\$11.2 million to FY2004 HK\$10.8 million, a drop of 3.6%.

Information Technology

During the year, the Information Technology ("IT") Business continued to provide IT solution and web-based software services primarily within the Group as well as external customers. Internally, an internal workflow system, Web-ERP system and Business Intelligence system have been developed and will further be enhanced to network all our production plants and global offices.

External IT services was principally delivered by Beijing Yilaida Information Technology Company Limited, the IT Business's joint venture investment in China.

FUTURE PROSPECTS

Although recent economic indices indicate that the global economy is generally healthy, there are risks of higher oil prices and increase in interest rates which will impact global growth adversely.

Printed Circuit Boards

With positive growth in the global PCB demand, coupled with the continuous outsourcing of manufacturing and components sourcing in China, the PCB industry in China region has been projected by PCB industry analyst, BPA, to have CAAGR (compounded average annual growth rate) of 18% from 2004 to 2007 onwards, as compared with the global CAAGR of around 7.6% projected by the same organisation — BPA.

While the PCB Business expects to enjoy the benefits of growth in regional business opportunities, the Group has to face and manage various regional challenges, such as power shortage, increases in people and overhead costs adjusting to economic policies for regulating the over-heated economy in China.

After gradually phasing in an additional 6 million sq ft PCB annual capacity in FY2004, we should have the full benefit from this capacity increase in FY2005. The focus in FY2005 will be on expanding inner-layer capacities rather than outer-layer capacities in view of more HDI and higher layer count businesses being developed or in stage of mass volume ramp-up. Business in Q1 FY2005 is normally slower due to the effect of summer vacation, however the bookings up to the present are still holding well.

Raw material supply is expected to remain cyclical and prices will further trend upward in the short term of 3 to 6 months. However, the new raw material capacity increase arising from mass volume production in around late Q2 FY2005 will stabilise prices by Q3 FY2005.

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Liquid Crystal Displays

Due to the increasing applications of LCD display in various electronics products, our strategy to deploy more efforts in developing the growing LCD module market will continue. In line with the enormous small to medium size LCD module business opportunities as well as to position the Group to more higher value-added products, we will expect to see expanding businesses from both LCD monochrome modules and color STN modules.

We also expect the supply of module materials including integrated circuits will improve and be more balanced so that the raw material prices will become more stable in the financial year ahead.

With above efforts and strategy in place, we expect that the LCD Business will deliver good results in the next financial year following the module business growth in communication and automotive markets.

Magnetic Products

The Group has strong marketing practice and global sale network in developing custom design and high value magnetic products such as magnetic integrated connector and magnetic module for application in communication market. Target key customers have already approved our product samples with new volume business to kick off in FY2005.

As global economy continues to improve, we expect the results of the Magnetic Products Business will improve in FY2005.

Information Technology

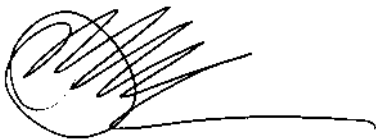
Knowledge management and corporate effectiveness have in recent years demanded for much greater support in the IT services. As a result, the Group has decided to rationalise the IT Business from external to internal. This new business direction is a natural migration and will yield a greater achievement from its IT resources in terms of overall performance.

The Group will further explore into various components sourcing business opportunities in view of continuous global trend in outsourcing electronics components into China.

Barring any unforeseen circumstances, the Directors expect the Group's performance to further improve in the coming financial year over FY2004.

APPRECIATION

On behalf of the Board of Directors, I would like to extend our sincere appreciation to all our employees as well as shareholders for their loyalty, commitment and contributions to the Group in achieving these encouraging results in FY2004. Let's work together again towards a better financial year 2005.

A handwritten signature in black ink, consisting of a circular loop followed by several vertical strokes and a long horizontal tail.

Thomas Tang Koon Yiu
Chairman and Managing Director

Hong Kong
23 August 2004



*Persist with
progress*

