

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Turnover of the Group increased to HK\$197,851,000 for the six months ended 30 June 2004, representing an increase of 8.2%. Loss attributable to shareholders was HK\$33,122,000 as compared to profit of HK\$4,316,000 for the corresponding period in 2003.

Increase in the Group's turnover has come from the growth of its traditional business and in particularly the sales of adaptor products. Loss of the Group is attributable by the initial operating cost of its new photomask business. The photomask business reported a loss before taxation and financial expenses of HK\$48,080,000, including the depreciation charges of HK\$36,373,000 for the first half of 2004. Improvement in profit from the traditional business has mitigated the Group's loss position.

Photomask

Following completion of machinery commissioning in 2003, the photomask division situated in Tai Po, Hong Kong has been gearing up for receiving customer's orders, during the first half of 2004. Since photomask manufacturing is a critical process for the semi-conductor industry and photomask is a vital product, which affects the quality of wafer, customers require a series of stringent sample tests before they approve new vendors. The photomask division has successfully secured product approval from a number of customers and has established a strong base for future business development.

Telephone accessories and power cords

Sales have slightly increased. Despite the rising trend in material cost, the division has implemented cost control measure to reduce production cost, and as a result, achieved a profit for the period under review as compared to a loss of HK\$918,000 in the first six months in 2003.

Adaptors and electronic products

Following the development and exploration of new markets, the division recorded a substantial increase in sales. The division is able to report a profit in multiple of the first six months in 2003's profit figure despite increase in material cost.

Printed circuit boards

Profit has slightly decreased as compared to the first six months in 2003 due to the effect of rising material cost.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business review (continued)

High precision metal components

Sales and operating profit of High Precision Metal Parts division have improved during the period under review.

Jointly controlled entity – copper wire

Profit increased substantially due to increase in sales. The market price of copper wire rose during the period under review and brought an additional profit from stockholding of the jointly controlled entity.

Associate – Tianjin Printronics Circuit Corporation (“TPC”)

During the period under review, TPC has reported stable increase of turnover and profit.

3S projects (GPS, GIS, RS)

The Group incorporated 3S Technology Holdings Limited on 19 February 2004. The principal activity of the company is investment on jointly controlled entities, which are involved in the development and integration, sale and service for car navigation and termination GPS equipment (GPS) and development and sale for the Geographic Information System (GIS) and Mobile Location Services (MLS). The Group has completed capital investment of RMB15,000,000 to acquire 75% equity in the company of Sky Light Communication (Shenzhen) Limited (深圳天際信和科技有限公司) during the first half of 2004.

The preliminary expenses for the 3S projects of HK\$222,000 have been written off during the first half of 2004.

Prospects

Progress of the Group's Photomask Business is satisfactory. The business has recorded its first sales in July 2004. The list of potential customers that have approved the Group's photomask product quality continues to grow. It is expected that mass production of the Group's photomask products will be initiated before the year-end.

As for the 3S projects of the Group, the capital investment of the GIS platform project has completed during the first half of 2004 and the project is expected to provide MLS services at the end of the year. The Group has invested a total fund of RMB15,000,000 to acquire 75% equity in a company of another Global Position System (GPS) project "Integration for Car Navigation GPS equipment" in September 2004. This company will commence operation and production at the end of the year.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Prospects (continued)

The Group will continue to emphasize cost control and improve product quality to maintain profit growth for the traditional business.

The establishment of new business has facilitated the Group to achieve business diversification and raise technology content in the manufacturing process of its products. This will bring a positive effect on the business development and profitability of the Group in the long run.

Liquidity and financial resources

At 30 June 2004, the Group's gearing ratio (total borrowings divided by equity) has increased to 0.27 (31 December 2003: 0.19) whereas current ratio (current assets divided by current liabilities) has increased to 1.56 (31 December 2003: 1.38).

Bank loans had decreased by approximately HK\$13,808,000 to HK\$133,318,000 as at 30 June 2004.

At 30 June 2004, the Group had capital commitments contracted, but not provided for amounting approximately HK\$16,069,000 (31 December 2003: HK\$4,902,000).

At 30 June 2004, the Group's share of the jointly controlled entity's capital commitments contracted, but not provided for amounted to approximately HK\$454,000 (31 December 2003: HK\$730,000).

After taking into account the existing cash resources and unutilized banking facilities, the directors are of the opinion that the Group will maintain an adequate liquidity position throughout 2004.

Exposure to fluctuations in exchange rates

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

Capital structure

On 9 January 2004, 4,500,000 share options were exercised at the subscription price of HK\$0.58 per share resulting in issue of 4,500,000 shares.

On 23 April 2004, 800,000 shares options were exercised at the subscription price of HK\$0.58 per share resulting in issue of 800,000 shares.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Contingent liabilities

The contingent liabilities of the Group, mainly from guarantees for banking facilities granted to a jointly controlled entity, increased from approximately HK\$101,039,000 as at 31 December 2003 to approximately HK\$132,782,000 as at 30 June 2004.

Pledge of assets

As at 30 June 2004, certain of the Group's assets with an aggregate net book value of approximately HK\$411,501,000 (31 December 2003: HK\$462,404,000) were pledged to secure general facilities granted to the Group.

Employees and remuneration policies

The Group had a total of approximately 3,665 employees as at 30 June 2004.

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 2004 (2003: 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.

