

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group reported a loss of HK\$48,771,000 for the six months ended 30 June 2005, which is attributable from a profit of HK\$15,624,000 from its manufacturing business, a loss of HK\$51,596,000 from its photomask business, a loss of HK\$2,594,000 from the 3S project, expense of HK\$4,387,000 in relation to share option granted to employees and financing cost of HK\$5,818,000.

A substantial amount of the loss was incurred due to high production overhead, including the provision of a depreciation charge of HK\$39,401,000 for the plant and equipment, with a relatively low turnover recorded by the photomask business during the period under review. Since the production of high-quality photomask requires a stringent control on the production environment, the cleaning room and other production facilities have to be operated even at idle time.

With respect to the Group's manufacturing businesses, the upward trend in the price of material and labour costs has adversely affected the performance of the division as compared to the corresponding period in 2004. Due to the recovery of the local economy and the rise in property price, a revaluation of the fair value of the Group's investment properties has provided a profit of HK\$8,353,000 for the period ended 30 June 2005.

Photomasks

The photomask division commenced its commercial production in the second half of 2004. Turnover of the photomask business for the six months ended 30 June 2005 is HK\$6,693,000.

As compared to the corresponding period in 2004, the amount of loss increased by HK\$3,516,000 to HK\$51,596,000 due to the increase in depreciation charges and maintenance expenses upon expiry of warranty for certain plant and equipment.

The plant and equipment of the photomask production facility is capable to produce high-end photomask with minimum width of 0.13um to 0.15um, which provides a higher return on sales of the product. In order to expedite market development, the Group has set up sales office in Taiwan, and appointed agents to promote sales in PRC and South East Asia.

During the period under review, the photomask business has expanded its customer base and has been granted the approved vendor status by two more wafer fabs.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business review (continued)

Telephone accessories and power cords

The division operated in a difficult environment during the period under review. The cost of producing telephone accessories and power cords has increased substantially due to the rise of price for plastic and metal material and labour cost in Pearl River Delta. The Group has tried to pass on its customers the increased cost in order to reduce the loss.

During the six months period ended 30 June 2005, turnover of the division dropped by 0.3% and an operating loss of HK\$6,937,000 was recorded.

Adaptors and electronic products

Sales increased by 11.8% to HK\$50,475,000. The division faced rising labour cost and raw material price. In order to be competitive in the market, the division has made modifications to its product design to mitigate the effect of rising material cost.

The division reported an operating loss of HK\$568,000 for the period under review as compared to a profit of HK\$709,000 to the corresponding period in 2004.

Printed circuit boards

Sales of the division dropped by 20.6% to HK\$26,426,000. Intense competition in the printed circuit boards market and increase in materials costs, such as gold salt and copper, had adverse effect on the Group's performance. The loss before financial cost is approximately HK\$3,365,000 in the first six months of 2005 as compared to a profit of approximately HK\$727,000 to the corresponding period in 2004.

High-precision metal components

Sales of the division has increased by 23.6% to HK\$29,744,000. The rise in material costs, such as aluminium and zinc, has negative impact on the Group's performance. The profit before financial cost has decreased to approximately HK\$1,181,000 in the first six months of 2005 as compared to approximately HK\$1,972,000 to the corresponding period in 2004.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business review (continued)

Jointly controlled entity – copper wire

Sales of Hoperise in terms of tonnage has increased by 9.1% due to the business growth of its Kun Shan factory, which has benefited from economies of scale and provided profit contribution. Profit attributable to the Group for the period under review dropped by 22% to HK\$12,379,000. It is due to the market price of copper wire rose during the corresponding period in 2004 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 slightly increased in turnover. Profit attributable to TPC increased by 13.5% to HK\$5,693,000.

3S project (GPS, GIS, RS)

The 3S project are operated by two jointly controlled entities, namely Sky Light Communication (Shenzhen) Ltd, which is involved in development and integration for space information technical and multi-media technical software, and Sky Land Navigator Technology (Shenzhen) Ltd, which involved in the development and integration for software and hardware in the intelligent traffic field.

Sky Land Navigator launched its products during the period under review. Sky Light Communication is in the phase of product development and promotion.

According to the Group's accounting policies, preliminary expenses and research and development cost of both companies were written off and loss attributable from 3S project to the Group for the six months ended 30 June 2005 is HK\$2,593,000.

Prospects

The development of the semi-conductor market in PRC is expected to be growing rapidly in the next 5 years, while the market for high-precision photomask is on an early stage. The Group is well professional to develop high-end photomasks to take advantage of the anticipated growth in the high-end photomask market.

Sales of Sky Land Navigator are expected to grow as products will be modified and launched later, performance of the 3S project will be improved in the second half of 2005.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Prospects (continued)

To cope with rising price in copper and plastic material, the management will enhance control on quality, improve product yield rate, and improve product design to minimize the cost of material.

TPC, the Group's associated company, has made an investment plan of RMB120,000,000 to construct a new factory and recently completed the foundation work of its new factory building.

Liquidity and financial resources

At 30 June 2005, the Group's gearing ratio (total borrowings divided by equity) has increased to 0.32 (31 December 2004: 0.29) whereas current ratio (current assets divided by current liabilities) has decreased to 1.14 (31 December 2004: 1.20).

Bank loans had increased by approximately HK\$13,577,000 to HK\$131,725,000 as at 30 June 2005.

At 30 June 2005, the Group had capital commitments contracted but not provided for amounting approximately HK\$964,000 (31 December 2004: HK\$278,000).

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 2005.

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

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\$125,610,000 as at 31 December 2004 to approximately HK\$86,358,000 as at 30 June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Pledge of assets

As at 30 June 2005, certain of the Group's assets with an aggregate net book value of approximately HK\$380,060,000 (31 December 2004: HK\$402,133,000) were pledged to secure general facilities granted to the Group.

Employees and remuneration policies

The Group had a total of approximately 3,505 employees as at 30 June 2005.

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 2005 (2004: 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 (the "Stock Exchange") or otherwise) during the period under review.