Results Highlights

- Revenue grew by 12.39% to HK$530,612,000
- Net profit rose by 16.85% to HK$52,076,000
- Basic EPS rose by 4.02% to HK12.43 cents per share
- Interim dividend of HK2.0 cents per share

Financial Results

The Group continued to report good performance in its financial results for the six months ended 30 June 2006 (the "Period"). Despite many challenges were faced by electronic industries from around the world during the Period, the Group still managed to grow its revenue by approximately 12.39% to a new record high of HK$530.6 million, which compared with HK$472.1 million for the six months ended 30 June 2005 (the "Corresponding Period"). For the fifth consecutive interim periods, the Group has broken its all time highest revenue records. This continued revenue growth was mainly attributable to the increase in sales of Aluminum Electrolytic Capacitors ("E-Caps") to existing and new customers, which showed an increase of 16.59% to HK$510.6 million. Revenue from the trading of raw materials, however, reduced by 41.46% to HK$20.0 million.

Gross profit for the Period increased by 18.30% to HK$136.7 million, representing a gross margin of 25.77%, which compared with 24.48% for the Corresponding Period. During the Period, total production costs surged as a result of: (i) sharp increases in direct raw material costs as a result of rapid increases in commodities prices such as petroleum, copper and aluminum; and (ii) the rise of labour costs, electricity and other production overhead expenditures. To counteract these adverse factors, the Group had launched a series of profit improvement initiatives such as: (i) processing of aluminum foils in-house; (ii) enhancing product-mixes by focusing more on the sale of E-Caps that consumes relatively less raw materials but offer higher margin; and (iii) shifting part of the incremental costs to customers by adjusting E-Cap selling prices. The results of these have been successful as reflected in the improvement in gross margin for the Period.

Profit for the Period attributable to equity holders of the Company was up by approximately 16.85% to HK$52.1 million, representing a net margin of 9.81%, which compared with 9.44% for the Corresponding Period.

Financial Results (Continued)

Basic and diluted earnings per share for the Period were HK12.43 cents and HK11.82 cents respectively, which compared with HK11.95 cents and HK11.68 cents respectively for the Corresponding Period.

The Board of Directors has resolved to declare an interim dividend of HK2.0 cents per share, totalling HK$8.6 million.

Business Review

Electronic components

Sale of Electronic Components, namely E-Caps, accounted for 96.24% of the total revenue. During the Period, revenue from the sale of E-Caps grew by 16.59% to HK$510.6 million. We expect the global E-Cap market to grow steadily between 5% and 7% (in volume terms) in 2006 primarily driven by the launching of new electronic and electrical products. However, the launch of certain key products in the computer and digital consumer electronics markets in 2006 have been delayed from the first half to the second half of 2006. As a result, sales orders placed by the customers in these concerned markets had been shifted towards the end of first half or beginning of the second half of 2006, to better match with customers' own product launching timetable. The Group's strategic move to focusing on sale of E-Caps that consumes less materials allowed the Group to sustain a good profit margin.

To cope with the increased demands, the Group has continued to expand its manufacturing capacities in 2006. As at 30 June 2006, the monthly production capacity for each of the Group's manufacturing facility is as follows: Dongguan: 550,000,000 pieces; Wuxi: 180,000,000 pieces; and Xiamen: 40,000,000 pieces. Thus, the total production capacity for the Group stood at 770,000,000 pieces per month at 30 June 2006, which compared with 710,000,000 pieces per month at 31 December 2005.

Business Review (Continued)

Electronic components *(Continued)*

The operating environment in 2006 have been quite challenging for the Group as there has been significant increases in raw material costs (except for aluminum foils), labour, electricity and other manufacturing overhead expenditures. Thanks to the realignment of the Group's product-mix and the upstream vertical integration process started in January 2006, the Group has been able to improve its gross margin from 24.48% in the Corresponding Period to 25.77% in the current Period.

Since 2005, the Group saw the rising trend for raw material prices (particularly for aluminum and petroleum related raw materials) and had adjusted its product marketing strategies accordingly. Instead of pursuing the growth in the sales of higher priced E-Caps (those carry a higher selling price but consumes more raw materials), the Group decided to focus on pushing the sales of E-Caps that consumes less raw materials but offer higher profit margin. This change in policy significantly reduces the Group's vulnerability in profit margin at times of hyper-inflation. This is evidenced by the improvement in the gross margin.

Aluminum foil is the most critical raw material component used in the production of E-Caps and it may account for up to 50% of the total cost of the product. In the past, these aluminum foils were purchased from overseas vendors. Starting in January 2006, the Group started to process aluminum foils through its wholly owned foil factory located in Qing Yuan. This factory is now capable of fulfiling over 20% of the Group's internal consumption. This upstream vertical integration process delivers the following benefits to the Group: (i) it assures a stable supply of aluminum foils in a tight raw material market; (ii) profits made by this aluminum foil factory goes directly into the Group's gross margin; and (iii) it has strategic value as proprietary technology or know-how in processing aluminum foils can be contained within the Group.

Business Review (Continued)

Trading of raw materials

Trading of raw materials, mainly aluminum foils, accounts for about 3.77% of the Group's revenue. Revenue derived from this business dropped 41.46% to HK$20.0 million for the Period. As the price of aluminum rose rapidly during the Period, trading return shrunk. Therefore, it was less attractive for the Group to carry out the trading of aluminum foils. In addition, the majority of the aluminum foils purchased from overseas vendors are now used in the production of aluminum foils by the Group's Qing Yuan foil factory. Going forward, the Group will gradually reduce the trading of raw materials as it expands its own aluminum foil facilities.

Environmental protection

During the Period, new equipments were installed and a comprehensive set of policies and procedures were established to ensure that the Group's products completely satisfies the "Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment" ("RoHS") requirements for the European Community and equivalent requirements for the rest of the world. The Group had also made it mandatory for all vendors and business partners to comply with its RoHS requirements.

Research and Development

During the Period, the Group has successfully launched a brand new type of capacitor known as "Polymer Based Solid Capacitors". Polymer is hundreds of times more conductive than the materials used in the traditional E-Caps. This type of capacitor is known for its reliability, durability, adaptability in high temperature environments and added safety measures. They are mainly used in high-speed computer or digital consumer electronic equipment. These products offer a much attractive profit margin than the traditional E-Caps. The shipment of this type of products already started in June 2006 although large scale production is expected to take place in 2007.

Liquidity and Financial Resources

At 30 June 2006, the Group's gross borrowings in respect of bank loans and finance leases amounted to HK$371.1 million (31 December 2005: HK$313.0 million), of which HK$161.7 million was repayable within one year, HK$78.8 million was repayable within one and two years and HK$130.6 million was repayable between three and five years.

After deducting cash and cash equivalents of HK$80.2 million (31 December 2005: HK$82.4 million), the Group's net borrowing amounted to HK$290.9 million (31 December 2005: HK$230.6 million). The increase in borrowing was mainly used to finance capital expenditure and investment in a jointly-controlled entity. Shareholders' equity at 30 June 2006 was HK$503.1 million (31 December 2005: HK$444.4 million). Accordingly, the Group's net borrowing to shareholder's equity ratio increased to 57.82% (31 December 2005: 51.89%).

Net cash inflow from operating activities during the Period amounted to HK$35.7 million, which compared with HK$31.5 million for the Corresponding Period. This figure represents profit before tax of HK$55.8 million, adding back adjustments for non-cash items such as depreciation and amortisation of HK$21.8 million and deducting net increase in working capital of HK$41.9 million. The net increase in working capital is mainly caused by the Group's strategy to temporarily increase its raw material buffer stocks so that production orders in the second half year will not be interrupted due to tight supply of raw materials. Financial year 2006 is also a year for major capital investments. Accordingly, the Group's net cash outflow for investing activities for the Period was increased to HK$100.6 million, which compared with HK$75.3 million in the Corresponding Period. These investing activities were mainly represented by capital expenditure and investment in jointly-controlled entities. The investing activities were partly financed by the net cash inflow from operations and partly by additional loan finances.

As 2006 is the year for large-scale capital expenditure investments, the Group's gearing ratio will temporarily be higher. However, with the Group's rising profitability trend, earnings before interest, tax, depreciation and amortisation ("EBITDA") of HK$86.9 million for the Period which compared with HK$73.5 million for the Corresponding Period, the Group is expected to generate adequate cash from its operations to repay its liabilities as and when they fall due. Management also expects that the gearing ratio for 2007 will be lower than that for 2006 as less capital expenditure is expected for 2007.

Liquidity and Financial Resources (Continued)

The debtor turnover days in the Period was improved to 77 days from 80 days in the Corresponding Period as a result of timely following up of customer payments. Creditor turnover days in the Period was approximately 73 days, which is slightly shorter than the Corresponding Period of 78 days.

The Group's financial statements are denominated in Hong Kong dollars. The Group conducts its business transactions mainly in Hong Kong dollars, Renminbi, United States dollars and Japanese yens. As Hong Kong dollar remained pegged to United States dollar, there is no material exchange risk in this respect. The Group receives Renminbi from its customers and at the same time incurs Renminbi expenditures. The receipt and payment can almost off set each other. Accordingly, the Group is not significantly affected by the recent appreciation of Renminbi against Hong Kong dollars. The Group monitors its foreign exchange exposure in Japanese yens by entering into cash flow hedging forward contracts. The Group also entered into interest rate swap contracts to partially hedge the interest payable in certain bank loans. Credit risk was hedged mainly through credit insurance policies.

Employment and Remuneration Policy

At 30 June 2006, the Group employed 100 employees in Hong Kong (31 December 2005: 103) and employed a total work force of approximately 5,350 (31 December 2005: 5,445) inclusive of its staff in China and overseas offices. Total headcount decreased during the Period due to natural attrition and shortage in the supply of labour forces in Dongguan and Wuxi where the Group operates. Salaries, bonuses and benefits were determined with reference to market terms and the performance, qualifications and experience of individual employees.

Outlook

We expect to see a stronger growth for our business in the second half of 2006. Firm orders were received from existing global customers as well as new international customers that we acquired in 2006. Sales would be particularly strong in the computer and peripheral, digital consumer electronic and game consoles, power supply equipment, flat panel plasma or LCD televisions, and household and industrial electrical appliances.

Outlook (Continued)

On the manufacturing front, we expect to be operating at full capacity for most of the second half year. To cope with these increased sales demands, we shall continue to expand our production capacity. In Wuxi, machinery will be added to further expand its production capacity from 180,000,000 pieces a month to 200,000,000 pieces a month. In Dongguan, we originally expect that the construction of the new centralized manufacturing facility shall be completed by the middle of 2006. However, such project was delayed by a few months due to unfavourable weather conditions. We are now pushing for the completion of this new facility and hopefully we will move into it by November 2006. When the relocation process is completed, we shall increase the production capacity in Dongguan to 650,000,000 pieces per month (current capacity is 550,000,000 pieces per month). Our Xiamen manufacturing unit will continue to deliver approximately 40,000,000 pieces per month. In order words, towards the end of 2006 or beginning of 2007, the Group will be capable of producing up to 890,000,000 pieces per month.

Expansion of production capacity will only be meaningful if the Group can secure abundant and stable supply of raw materials. We expect the supply of aluminum foils in the market will remain tight in the second half of 2006 and after. Accordingly, we will speed up and expand our capability of producing aluminum foils for our own consumption. We will add machinery to expand the aluminum foils production lines in the near future. By early 2007, we hope we can produce up to 40% of the aluminum foils for the Group's internal consumption. All these upstream vertical integration processes will allow the Group to secure the supply of high quality aluminum foils and improve its profit margin.

The Group has successfully launched its "Polymer Based Solid Capacitors" in first half of 2006 and has commenced mass production of the product in a smaller scale. When the new Dongguan manufacturing facility is completed, the Group will purchase more machinery and expand the production volume. As these products offer higher margin than the traditional E-Caps, the increase in production will provide further improvement to the Group's profit margin.

Although the Group is facing challenges such as on-going pricing pressure from customers; rising costs of raw materials, labour, energy and manufacturing overheads; and the shortage of labour forces in Mainland China, the Group is confident about its future development. The Group will relentlessly pursue both horizontal and upstream vertical growth in the years to come.