

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's financial performance for the year ended 30 June 2006 recorded a steady upward growth with a double-digit increase in both turnover and net profit. During the year under review, turnover of the Group amounted to RMB525,953,000 (2005: RMB369,787,000), representing an increase of approximately 42.2% as compared to the corresponding period last year. The Group managed to achieve satisfactory results during the year primarily due to the increased utilization rate and production capacity of two subsidiary companies, so as to expand its scope of operations and attain even greater economies of scale.

The gross profit for the year under review reached approximately RMB186,290,000 as compared to approximately RMB147,004,000 for last year. The overall gross profit margin was decreased due to the increase in raw material prices, changes in products mix and the relatively lower utilization rate of the production capacity of the two subsidiary companies as compared to the old subsidiary company. Operating profit and profit attributable to equity shareholders were RMB162,551,000 (2005: RMB112,289,000) and RMB101,816,000 (2005: RMB80,427,000) respectively, representing increases of approximately 44.8% and 26.6% respectively as compared to the corresponding period last year. Basic earnings per share was RMB22 cents (2005: RMB17 cents).

Loss on changes in fair value of the derivative components of the convertible bonds ("CB") amounted to approximately RMB13,966,000 (2005: Nil). Ignoring such loss, the net profit attributable to equity shareholders for the year under review would be reached RMB115,782,000, representing an increase of 44.0% as compared to last year.

Business Review

The Group is principally engaged in the manufacturing and sale of rigid printed circuit boards ("PCBs") and flexible printed circuit boards ("FPCBs") and also provides printed circuit boards assembly ("PCBA") and sub-contracting services. Due to the strong overall demand from downstream electronic consumer products, such as LCDs, PSPs, multi-media products and mobile phones, as well as the trend of multi-national companies outsourcing EMS to China, the Group has achieved strong results during the 2006 financial year despite the rising cost of raw materials.

PCBs have received strong orders from clients. However, as the utilization rate of the PCBs plant has reached full capacity, the revenue only recorded 6.9% growth of that sector this year.

The new FPCBs business recorded a growth of 2,201.4% in turnover compared with last year. The business has significantly benefited from the overall trend that FPCBs industry has been moving to China as a result of EMS outsourcing. Furthermore, the Group has successfully obtained certifications from additional renowned international companies such as Sankyo Seiki Management Co., Ltd, JVC and Truly Semiconductors Ltd, which resulted in an upsurge of orders.

Management Discussion and Analysis

The Group's PCBA business has also recorded tremendous growth of 404.5% in turnover compared with last year. The growth reflected the success of the Group's strategy in offering one-stop solutions for the PCBs industry.

Segmental Information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

Rigid printed circuit boards

During the year under review, the sales of PCBs amounted to RMB382,498,000 (2005: RMB357,714,000), representing approximately 72.7% of the Group's total turnover. Operating profit/(loss) contributed by this business segment was RMB157,080,000 (2005: RMB141,740,000), up 10.8% as compared with that of the preceding year.

Flexible printed circuit boards

Total sales of FPCBs reached approximately RMB72,286,000 (2005: RMB3,141,000), which made up approximately 13.8% of the Group's total turnover during the year under review. Operating profit/(loss) reached approximately RMB8,122,000 (2005: RMB(14,390,000)). The FPCBs sector was one of the Group's key revenue engines, primarily targeting Korean and Japanese clients. Since the Group started full-scale manufacturing operation in January 2005, sales of FPCBs have recorded rapid growth. Given the wide application and strong demand of FPCBs yield, this business segment has increased the Group's overall profit significantly.

Rigid printed circuit boards assembly

The PCBA service provides a major competitive edge to the Group's business, consolidating its position as a one-stop EMS provider. It is the second fastest growing sector apart from the FPCBs. Turnover of PCBA during the year under review amounted to approximately RMB45,363,000 (2005: RMB8,932,000), accounting for approximately 8.6% of the Group's total sales, and the operating profit/(loss) was approximately RMB1,316,000 (2005: RMB(4,330,000)).

Provision of SMT processing services

Turnover contributed by this business segment amounted to RMB25,806,000 (2005: NIL), accounting for 4.9% of the Group's total sales, and operating profit came up to RMB2,879,000 (2005: NIL).

Management Discussion and Analysis

Geographically, sales within the PRC (excluding Hong Kong and Taiwan) remained the largest segment in which approximately 83.8% (2005: 83.0%) of the Group's turnover was generated, while approximately 8.0% (2005: 10.6%) was attributable to the sales to Australia for the year under review. The balance of approximately 8.2% of the Group's turnover (2005: 6.4%) was taken up by Germany, Hong Kong, Taiwan and other countries.

Manufacturing Facilities

The Group currently operates three manufacturing facilities in the PRC, located in Fujian and Guangdong provinces. Details of the individual facilities are as follows:

Fuqiang Plant, Fujian Province

The manufacturing facility in Fuqiang, Fujian Province, focuses on rigid PCBs, including double-side and multilayer PCBs. Adopting the high mix, low volume strategy, the Fuqiang Plant specializes in the early stage of the production cycle. The Group has successfully expanded the plant's production capacity to 40,000 square meters of PCBs per month, which is near full capacity.

Shuangxiang Electronics, Fujian Province

In line with the Group's objective to position itself as a "one-stop" EMS provider, the Group has been stepping up efforts to maintain and expand its assembly production line. Located in Mawei, Fuzhou city, the facility occupies 6 SMT lines and 2 MI lines and is primarily responsible for conducting PCBA and SMT processing services, including the design of sub-system, production of prototype samples, low-volume production and testing services.

Gemini Electronics, Guangdong Province

FPCBs is one of the fastest growing sectors of the Group. The plant in Huizhou, Guangdong Province, has reached a production capacity of 10,000 square meters per month.

FUTURE PROSPECT

Strong demand for electronic products and the outsourcing trend of EMS to China has foreseen the positive outlook for EMS. International Data Corporation expected that the total income of EMS solution providers worldwide will grow at a compounded annual rate of 10.2% from US\$89 billion in 2002 to US\$400 billion in 2007. It also predicts that the EMS industry in China will grow at a compounded annual rate of 29.7% from year 2002 to 2007, and will account for 38% of the global EMS industry by year 2007. While PCB demand in China is expected to enjoy an annual growth rate of 15.2%, from US\$6.85 billion in 2003 to US\$13.88 billion in 2008, according to BPA Consulting. It also expects that the China market, the largest in the world, to account for approximately one-third of global demand by then.

As one of the few pioneering one-stop solution providers in the industry, the management believes that the Group is well-positioned to capitalize and enjoy further growth.

Management Discussion and Analysis

In recent years, there has been robust global demand for compact, thin, multi-functional and portable electronic devices, boosting the demand for FPCBs. It is the management's view that there is still room for market expansion and higher operation efficiency. The Group plans to install new production facilities in the coming years, in a bid to boost monthly capacity by 50% to 15,000 square meters by next financial year.

Regarding the PCBA business, the Group plans to install 2 more SMT lines in the Shuangxiang Electronics plant by next financial year, in addition to current 6 SMT lines.

To cope with the rising demand for PCBs, the Group will acquire a new site area for a second plant named Hai Chuang. The new plant is expected to begin manufacturing PCBs in the financial year of 2009, total monthly capacity for PCBs is expected to reach 60,000 square meters.

The Group will continue to explore strategic merger and acquisition opportunities for further expansion. This will boost production capacity, broaden its client base and provide a wide range of value-added services to clients.

The management is fully confident that the Group will again achieve record growth next year and further increase shareholders' returns.

Liquidity and Financial Resources and Capital Structure

For the year ended 30 June 2006, the Group's working capital requirement was principally financed by its internal resources, banking facilities and convertible bonds.

As at 30 June 2006, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB572,803,000 (2005: RMB540,915,000), RMB383,386,000 (2005: RMB519,729,000) and RMB738,154,000 (2005: RMB727,939,000) respectively.

As at 30 June 2006, the Group had total borrowings (excluding obligations under finance leases) of RMB300,717,000 (2005: RMB213,019,000), comparing utilised bank loan facilities of RMB229,391,000 (2005: RMB143,791,000) and convertible bonds of RMB71,326,000 (2005: RMB69,228,000), of the total utilised bank loans of RMB199,391,000 (2005: RMB110,657,000) for short term and the remainder of RMB30,000,000 (2005: RMB33,134,000) for long term. Included in these utilised bank loans, RMB8,293,000 and RMB144,800,000 were secured by bills receivables and corporate guarantee given by the Company and the remaining balance of RMB76,298,000 was unsecured. Besides, the Group had available RMB40,000,000 (2005: RMB8,385,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met and had obligations under finance leases of RMB13,135,000 (2005: RMB12,982,000) denominated in Hong Kong Dollars. The total borrowings were mainly for business expansion, capital expenditure and working capital purposes. The Group's short term and long term borrowings were mainly denominated in Renminbi and US Dollars. Loan facilities were granted to the Group at the normal market interest rates.

Management Discussion and Analysis

The shareholders' equity of the Group as at 30 June 2006 increased by RMB73,387,000 to RMB670,033,000 (2005: RMB596,646,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: shareholders' equity) of the Group as at 30 June 2006 was approximately 0.74 (2005: 0.56).

Significant Investments

Saved as disclosed elsewhere on the Management Discussion and Analysis, the Group had no other significant investment held.

Acquisition and disposal of Subsidiaries and Associated Companies

During the year ended 30 June 2006, the Group had no material acquisition and disposals of subsidiaries and affiliated companies.

Employment Information

As at 30 June 2006, the Group employed a total of 1,550 (2005: 1,200) employees. It is a policy of the Group to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industry. During the year ended 30 June 2006, the employment cost (including directors' emoluments) amounted to approximately RMB28,848,000. In order to align the interests of staffs, directors and consultants with the Group, share options may be granted to staffs, directors and consultants under the Company's 2003 share options schemes ("2003 Scheme"). As at 30 June 2006, there are 4,000,000 share options outstanding under the 2003 Scheme.

Charges on Group Assets

As at 30 June 2006, there were no charges on group assets.

Future Plans for Material Investments and Expected Sources of Funding

Save as disclosed elsewhere on the Management Discussion and Analysis, as at 30 June 2006, the Group had no future plans for material investments.

The management will continue to monitor the industry and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

Exposure to Fluctuations in Exchange Rates

During the year ended 30 June 2006, the Group experiences only immaterial exchange rate fluctuations as most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars, US Dollars and Renminbi, and the Group conducted its business transactions principally in

Management Discussion and Analysis

Hong Kong Dollars, US Dollars and Renminbi, all of which were relatively stable during the year under review. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Capital Commitment

As at 30 June 2006, in respect of capital expenditures, the Group had contracted for capital commitment in the financial statements amounted to approximately RMB100,702,000.

Contingent Liabilities

As at 30 June 2006, the Group did not have any material contingent liabilities.