

# Chairman's Statement



**Tang Chung Yen, Tom**

*Executive Chairman and Group Managing Director*

It is my pleasure to present to you our first annual report since our company's listing on The Stock Exchange of Hong Kong Limited in February 2007. I am pleased to inform you that 2006 was a strong and promising year for our Group. As the world's demand for electronic products rose during the year, we were able to seize the opportunities that have arisen from the enormous growth in the industry. This was particularly the case in the China region, where we enjoyed a strong positioning – a position that will only be strengthened with our plans for further expansion.

## **BUSINESS REVIEW**

2006 saw a strong demand for electronic products around the world, triggered largely by a robust global economy. As a result of the growth in the electronic products industry, Printed Circuit Board ("PCB") analyst, NT Information Ltd, reported that global PCB production in 2006 increased by 14.5% over 2005, and reach a record US\$48.6 billion – a figure that surpasses the previous peak of US\$42.7 billion recorded before the internet bubble burst in 2000.

Fueled by the twin forces of China's booming economy and the ongoing outsourcing of electronic product manufacturing in China, PCB production in China in 2006 has grown by 20.3% over 2005. This would see China overtake Japan as the world's largest country for PCB production, with a PCB output value estimated

at US\$12.1 billion, representing 24.9% of the world's output.

The Group's strategies are continuing to focus on high technology, high value-added and high performance prepreg and laminate, High Density Interconnect ("HDI") PCB, high-layered PCB sectors and organic substrate PCB. These on-going strategies allowed the Group to capitalize on enormous business opportunities in the region, largely due to the outsourcing demand in recent years for primarily higher technology product sectors and greater value-added PCBs.

The Group was able to record a turnover of HK\$3.14 billion in 2006, representing an increase of 41.7% over our 2005 turnover of HK\$2.22 billion, and out-performing both global and China region PCB production growth rates.

The Group's prepreg and laminate sales stood at HK\$301.6 million, while PCB sales were HK\$2.84 billion in 2006, versus HK\$201.6 million and HK\$2.02 billion respectively for 2005. Blended average selling price and average layer count for PCBs were also recorded at US\$23 per square foot and 7.3 layers respectively in 2006, versus US\$20 per square foot and 6.9 layers in 2005.

The improvements in both the blended average selling price and average PCB layer count were primarily due to the sales growth experienced in the high technology and high-value added PCB sectors compared with 2005 as well as the general increase in selling prices for PCB in 2006. The various areas of growth in 2006 over 2005 include: organic substrate sales growth of 45.6%; HDI PCB sales growth of 43.9%; 67.1% growth in 20 layer and above PCBs sales, 48.0% growth in 14, 16 and 18 layer PCB sales; and 39.1% growth in 8, 10 & 12 layer PCB sales. Sales of 2, 4 & 6 layer PCBs, however, only grew by 30.0% in 2006 over 2005, which is lower than the Group's total PCB sales growth in 2006 over 2005.

The double-digit price increase of key raw materials for PCB manufacturing (such as raw copper, copper foil, fibreglass, prepreg and copper clad laminates) was primarily offset by the increase in PCB selling prices, value-added contributions as well as a better economy of scale.

The Group's operating profit increased from HK\$254.3 million in 2005 to HK\$470.2 million in 2006, representing a growth of 84.9%. Operating profit margin improved from 11.5% in 2005 to 15.0% in 2006.

As part of the Group's continuous strategies to focus on high technology and high-valued product application sectors, the Group has rallied our marketing efforts on communication sectors that conventionally have a higher average layer count than computer and consumer sectors. The Group's sales in communication, computer, consumer and other sectors stood at 48.3%, 19.3%, 16.1% and 16.3% of the Group's total sales respectively in 2006, versus 47.0%, 24.0%, 13.8% and 15.2% in 2005.

Growth in turnover during the year was facilitated by the Group's continuously expanding capacity for prepreg and laminate in Mica-Ava (Far East) Industrial Limited ("MAF"), as well as our ongoing expansion in both

HDI PCB and conventional PCB capacities. As MAF's new Hong Kong production facility went operational in early 2006, we were able to increase our prepreg and laminate production capacity from 3.9 million sq ft and 1.4 million sq ft in December 2005 to 11.1 million sq ft and 2.9 million sq ft respectively in December 2006.

The Group also invested to increase HDI PCB capacity in Shanghai Meadville Electronics Co., Ltd. ("SME"), from 310,000 sq ft per month in December 2005 to around 380,000 sq ft per month in December 2006, and improved capacity for all 2+ HDI PCB with copper filled vias requirements. High-layered PCB capacity was also expanded in Dongguan Meadville Circuits Limited ("DMC"), increasing from about 365,000 sq ft PCB with an average 7.5 layers inner capacity in December 2005 to about 710,000 sq ft with average 8 layers inner capacity by December 2006.

The strong growth in financial performance during the year was made possible by careful phase by phase planning, pilot testing and production acceleration in each of the aforementioned expansion programme. Of paramount importance has been coordinating precisely these initiatives to ensure their alignment with our 2006 marketing and business development plan to acquire new customers while retaining existing customers.

With more resources deployed in both the North American and European markets, 2006 also saw the





Group successfully gain qualifications from eight major multinational original equipment manufacturers (“OEMs”). Business with these eight customers began either during 2006 or in early 2007.

Share of profit from associated companies, Guangdong Shengyi Sci. Tech Co., Ltd. (“GSST”) and Suzhou Shengyi Sci. Tech Co., Ltd. (“SSST”), was HK\$97.8 million for the full year in 2006, versus HK\$55.2 million in 2005. This represents 77.2% growth over 2005, keeping in line with the Group’s operating profit growth of 84.9%.

During the year, the Group incurred a one-time loss of HK\$ 52.2 million, due to a reduction in the Group’s share of net asset value in an associated company, GSST. On 19 January 2006, GSST approved the conversion of all restricted shares to unrestricted shares at a conversion price of 3.3 shares to the shareholders for every 10 unrestricted shares. Accordingly, the number of shares and percentage of equity held by us decreased from 165,305,000 shares to 141,525,000 shares, from 25.91% to 22.18%, respectively. This conversion enables the Group’s shares in GSST to be gradually tradable on Shanghai Stock Exchange effective from 9 March 2007 onwards.

#### **FUTURE PROSPECTS**

PCB analyst, NT Information Ltd, predicted that PCB business remains bullish in 2007, and global PCB

production will increase by approximately 9.0% over 2006 in 2007, reaching an estimated US\$52,921 million in PCB output.

China’s production growth is predicted to dominate all other regions in the world, with an estimated growth rate of 17.3% over 2006, and an estimated PCB output value of US\$14,195 million in 2007. More importantly, the China region’s growth is also expected to play a dominant role in higher technology and higher layer count PCB production.

With the exception of losing around one week of the Group’s capacity during the Chinese New Year holiday, all available capacity of the Group has been fully utilized or booked until May 2007.

With China’s 3G system scheduled to launch before the 2008 Olympic Games, we expect businesses from China network and mobile players to enjoy double digit growth rate in 2007. We believe our strong positioning in the China market will allow the Group to capitalize on the high growth of this industry sector.

With eight new multinational OEMs recently qualifying our facilities, we endeavour to establish a strong balance of new business from both global players and China based enterprises.

While we already have a balanced customer portfolio to substantiate our growth in 2007, the Group is actively soliciting new customers as a base for further growth in 2008 and beyond.

Following the Group’s listing on The Stock Exchange of Hong Kong Limited on 2 February 2007, the Group’s financial position has been substantially improved. Sufficient funds are available to execute our facility expansion plans so that we are positioned to capture the growing business opportunities among existing

customers, new customers and potential customers after the listing.

After adding in the net listing proceeds of approximately HK\$1,046 million, the Group's net asset value will increase by about 111.5% from December 2006's HK\$937.7 million to HK\$1,983.7 million.

Discussion with Hitachi Chemical Co., Ltd. is underway for forming a new joint venture prepreg and copper clad laminate plant in China in addition to our existing joint venture plant in Hong Kong. Through its phase one investment, the Group is expected to increase its existing high technology and high performance prepreg and laminate capacity by about 110% from the current prepreg and laminate capacity of 11.1 million sq ft and 2.9 million sq ft per month respectively to 24.0 million sq ft and 6.1 million sq ft per month respectively when our new capacity will be fully operational in or about the third quarter of 2008.

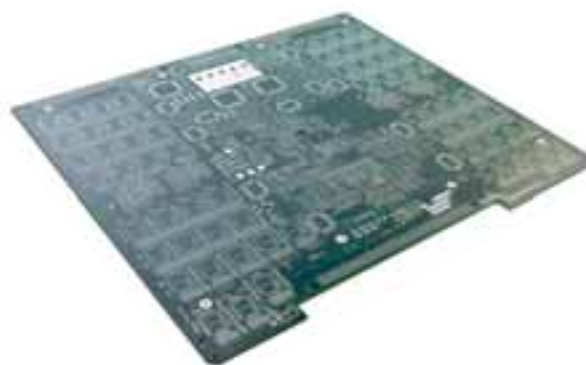
Further expansions are planned for the DMC plant, increasing DMC's capacity to 1,100,000 sq ft of 8.5 average inner layers by December 2008. The organic substrate plant in Shanghai will also be expanded to around 80,000 sq ft of substrate products, up from 30,000 sq ft in December 2006. Additionally, a new HDI plant in Guangzhou, Guangzhou Meadville Electronics Co., Ltd. ("GME") is currently under construction and we plan for pilot production to commence by the third quarter of 2007. GME's first phase investment will bring in new 2+ copper filled vias HDI PCB capacity by about 200,000 sq ft output per month when fully operational by around the third quarter of 2008.

The Group has also acquired another new site in Dongguan, spanning approximately 1,948,558 sq ft of land, with plans for further expansion of high layer conventional PCB business in 2008 and 2009. Construction of the plant premises is expected to start in the second half of 2007.

All the capacity expansions as mentioned above will primarily be financed by the listing proceeds, banking facilities as well as other operational cash flow generated in 2007. We anticipate that with these expansion plans in place, our capacities as at the year end 2007 will be about 2 million sq ft per month, representing an increase of approximately 17.5% over 2006.

As a token of appreciation to the loyal employees who made the past growth of the Group possible, our substantial shareholder has, out of its own shareholdings, granted free award shares to the Group's team of over 7,000 employees upon our successful listing in February 2007. According to this employee share award scheme, most of the entitled employees will gradually take up 100% of their shares in the coming 5 years' vesting period. With this employee share scheme in place, the Group has no plan to grant share options to its employees in the short term, which can save the dilution effect to the Group's earning should such share options be granted.

As a result of the grant of the award shares to the employees and in accordance with the latest accounting standard, the Group would incur non-cash employee expense of approximately HK\$254.5 million, HK\$17.2 million, HK\$17.2 million, HK\$9.9 million and HK\$4.4 million for each of the financial years ending 31 December 2007, 2008, 2009, 2010 and 2011, respectively.



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This employee expense would have no impact on the Group's net asset value as the correspondence entry of this employee expense would be an equivalent amount credited or increased in the Group's reserve account.

The Group is monitoring closely the volatility in the world's equity market and the second home mortgage crisis in the US. Should any of these situations happen which may have adverse impact on the 2007 global economy and dampen the PCB demand and industry growth in 2007 as predicted, the Group will regulate its capacity expansion plans accordingly.

If we take away the exceptional, non-cash employee expense charge, and barring any unforeseen circumstances such as U.S. or global economy slowdown, the Group is confident that the results for 2007 will remain satisfactory.

Finally, on behalf of the Board, I would like to take this opportunity to express my thanks and appreciation to all employees who have contributed to our results in 2006, and I look forward to another successful year ahead.

**Tang Chung Yen, Tom**

*Executive Chairman and Group Managing Director*

Hong Kong, 28 March 2007