

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group achieved a record high in interim turnover for the third consecutive year since listing in 1997. Turnover for the Period was increased by approximately 50% to HK\$379.6 million from HK\$253.5 million for the first six months of 2003 mainly contributed by the increase in Taiwanese market on the computer motherboard and power supply segments. Gross profit for the Period was increased by approximately 37% to HK\$79.3 million from HK\$58.0 million for the first six months of 2003.

Profit from operating activities for the Period was up by approximately 59% to HK\$32.5 million from HK\$20.4 million for the first six months of 2003. Net profit for the Period was HK\$24.1 million, representing an increase of approximately 66% compared to the net profit of HK\$14.5 million for the first six months of 2003.

Basic and diluted earnings per share for the Period were approximately 6.46 HK cents and 6.45 HK cents respectively compared to the earnings per share of 3.89 HK cents and 3.89 HK cents respectively for the first six months of 2003.

LIQUIDITY AND FINANCIAL RESOURCES

Net cash inflow generated from operating activities during the Period amounted to HK\$11.4 million, which was slightly lower than that of the same period last year at HK\$16.9 million mainly due to the buildup of inventories as a result of the consignment store arrangements for certain established customers and shorter credit period normally obtained from major raw material suppliers for their better pricing. Although the creditor turnover period was decreased to approximately 76 days for the Period from 93 days for the same period last year, inventory turnover period was reduced to 93 days for the Period from 113 days for the same period last year while debtor turnover period improved to 87 days for the Period from 97 days for the same period last year as a result of focusing on customers with timely payment. The Company maintained a sound financial position during the Period, with 13.7 HK cents of cash per share (31 December 2003: 12.4 HK cents).

Total borrowings in respect of bank loans and finance leases at 30 June 2004 increased to HK\$221.8 million from HK\$202.5 million at 31 December 2003 mainly to finance the purchases of increased inventories and additional capital expenditure. Capital expenditure incurred during the Period mainly on various additions of machinery and equipment was approximately HK\$31.1 million (2003: HK\$48.2 million) and was funded by internally generated resources and long term bank financings.

The gearing ratio calculated as a percentage of total borrowings in respect of bank loans and finance leases to total shareholders' equity was 77.7% at 30 June 2004 compared to 78.0% at 31 December 2003.

Other than trade bills discounted to banks in the ordinary course of business, the Group had no material contingent liabilities. The Group conducts its business transactions mainly in Hong Kong dollars, Renminbi, United States dollars and Japanese yens. As long as Hong Kong dollar is pegged to United States dollar and there is no major fluctuation in the exchange rate between Renminbi and Hong Kong dollar, the Group does not anticipate any significant foreign exchange risk in this respect. The Group will monitor its foreign exchange exposure in Japanese yens and market conditions if any hedging is required. Forward exchange contracts are used for hedging payment in Japanese yens. The Group has also entered into interest rate swap contracts to partially hedge the interest payable in long term bank loans.

EMPLOYMENT AND REMUNERATION POLICY

At 30 June 2004, the Group had approximately 87 members of staff in Hong Kong (31 December 2003: 79) and employed a total work force of approximately 3,658 (31 December 2003: 3,288) inclusive of its staff in China and overseas offices. Total headcount increased mainly due to the establishment of an additional manufacturing facility to meet increasing order flows. Salaries, bonuses and benefits were determined with reference to market terms and the performance, qualifications and experience of individual employees.

FUTURE PROSPECTS

The Group will participate, as scheduled, trade fairs to be held in Hong Kong and Germany in the fourth quarter of 2004.

Due to longer design and application procedures than expected, construction on the piece of land in Wuxi originally scheduled to commence in the second quarter this year started in July 2004 instead. The relocation of the existing production facility in Wuxi is re-scheduled to the first quarter of 2005.

The original production facility in Dongguan has been operating in full capacity and it is expected that this will continue as our future sales continue to grow. To facilitate the future manufacturing development of the Group in southern China, an agreement was signed to purchase a piece of land of approximately 83,000 square meters in Dongguan.

An agreement was signed with the graduate school of Qinghua University in the PRC to set up a research and development center for the research and development of industrial electrical and chemical techniques and for the provision of technical service to the Group's production. It is expected that this cooperation will strengthen the technical support and development of the Group.