MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS HIGHLIGHTS

- Revenue grew by 24.4% to HK$472.1 million (broke highest records for four consecutive interim periods)
- Net profit rose by 85.2% to HK$44.6 million (broke highest records for interim periods)
- Basic EPS rose by 85.3% to HK11.95 cents per share
- Interim dividend of HK1.5 cents per share

FINANCIAL RESULTS

The Group continued to report strong performance in its financial results for the six months ended 30 June 2005 (the "Period"). Revenue for the Period rose by approximately 24.4% to a new record high of HK$472.1 million, which compared with HK$379.6 million for the six months ended 30 June 2004 (the "Corresponding Period"). For four consecutive interim periods, the Group has broken its highest revenue records. This continued revenue growth mainly derives from incremental orders from the Group's existing global customers as well as new customers from around the world that recently approve the Group's SAMXON brand of products.

Gross profit for the Period also increased significantly by 45.8% to HK$115.6 million, representing a gross margin of 24.5%, which compared with that for the Corresponding Period of 20.9%. This significant improvement in the gross margin is mainly attributable to the following factors. Firstly, the Group has diversified and shifted its product mix by focusing more on higher value and higher margin items in 2005. Secondly, the results of various cost reduction measures are beginning to reflect in the Period. The Group's enlarged production size and strong bargaining position allows it to obtain more favourable discounts from its key vendors; the continuous R&D efforts allow the Group to reduce the material costs in products without affecting their superior quality; and the increase in production size allows the Group to enjoy better economies of scale in the absorption of manufacturing overhead expenditures.

Profit for the Period attributable to equity holders of the Company was up by approximately 85.2% to HK$44.6 million from HK$24.1 million in the Corresponding Period. This represents a net margin of 9.4%, which compared with the net margin of 6.3% in the Corresponding Period.

FINANCIAL RESULTS (continued)

Basic and diluted earnings per share for the Period were HK11.95 cents and HK11.68 cents respectively, which compared to the restated earnings per share of HK6.45 cents and HK6.44 cents respectively for the Corresponding Period.

The Board of Directors has resolved to declare an interim dividend of HK1.5 cents per share (2004: nil) for the period ended 30 June 2005, totalling HK$6.0 million.

BUSINESS REVIEW

The global market for aluminum electrolytic capacitors ("E-Caps") continued to grow in 2005. Based on a research report on the global E-Cap market published by Paumanok Publications, Inc. in May 2005, the global E-Cap Market size for 2004 was approximately 85 billion pieces (in volume terms) or US$3.4 billion (in revenue terms). This market is expected to grow steadily from 2005 to 2010 at a cumulative annual growth rate of approximately 5.4% (in volume terms) or 2.3% (in revenue terms). Based on the information contained in the same report, the Group ranked number 7 in the 2004 global E-Cap Market, occupying about 3.3% of the global market share in value terms.

Over the past years, the Group has been rapidly expanding its revenue. From 2002 to 2004, the Group achieved a cumulative annual revenue growth rate of about 23% p.a.. This rapid growth trend is expected to continue in 2005. This high growth is mainly attributable to the following factors. The quality and reliability of the Group's products had been well acknowledged and received by global customers that own some of the strongest brand names in the electronic and electrical fields. These customers had been placing incremental orders to the Group. Thanks to the contributions of the Groups' R&D team, the Group is now offering full range of E-Caps to its global customers. Geographically speaking, the Group has been rapidly expanding its business in the key market places such as Hong Kong, Mainland China, Taiwan, Japan, Korea and Southeast Asia. Recently, the Group has been successful in expanding its business in North America and Europe. Through continuous introduction of new products for customers' approval, the Group is able to secure future business opportunities in the years to come. At the present moment, the single largest constraint to further expanding the Group's revenue is the limitation of its production capacity.

BUSINESS REVIEW (continued)

In June 2005, the Phase 1 of the Group's new Wuxi manufacturing facility was completed and the Group has relocated its Wuxi production operations to the new facility in early July 2005. The former Wuxi production capacity was approximately 80 million pieces a month and the Group targets that the new facility will expand its Wuxi production capacity to approximately 150 million pieces per month by the end of the year.

In Dongguan, the largest production base for the Group, we have been somewhat constrained by space limitation. Accordingly new factory space was leased to expand the current production capacity. During the Period, we have increased the production capacity in Dongguan from approximately 450 million pieces a month to approximately 500 million pieces a month.

In Xiamen, this manufacturing facility continued to contribute approximately 40 million pieces per month.

The Group has put in continuous efforts in promoting its R&D capability. In 2004, the Group signed a cooperation agreement with the Tsinghua University to jointly set up a research centre in Shenzhen. This research centre has been opened and several professors and post-doctorates students are helping the Group to look into new product innovation and cost reduction directions.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2005, the Group's gross borrowings in respect of bank loans and finance leases amounted to HK$307,486,000 (31 December 2004: HK$229.8 million), of which HK$207,597,000 was repayable within one year, HK$82,448,000 was repayable within one and two years and HK$17,441,000 was repayable between three and five years. After deducting cash and cash equivalents of HK$80,639,000, the Group's net borrowing amounted to HK$226,847,000 (31 December 2004: HK$178,888,000). The increase in borrowing was mainly used to finance capital expenditure and investment in a jointly controlled entity. Shareholders' equity at 30 June 2005 was HK$360,378,000 (31 December 2004: HK$325,108,000). Accordingly, the Group's net borrowing to shareholder's equity ratio increased to 62.9% (31 December 2004: 55.0%).

LIQUIDITY AND FINANCIAL RESOURCES (continued)

Net cash inflow from operating activities during the Period amounted to HK$31.5 million, which compared with HK$11.4 million for the Corresponding Period. This figure represents profit before tax of HK$52.1 million, adding back adjustments for non-cash items such as depreciation and amortisation of HK$18.0 million and deducting net increase in working capital of HK$38.6 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 2005 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$75.3 million, which compared with HK$29.9 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.

The Group is in the process of refinancing its interest bearing debts by raising new bank loans with better terms and longer maturity profiles. In July 2005, a new three and a half year term facility for up to HK$120 million was granted by a bank to the Group. At present, the Group is in the process of refinancing its existing syndicated term loan by a new syndicated term loan with better terms and a slightly higher facility amount. The funds raised from these new loans will be applied to repay the existing interest bearing debts, to finance the Group's capital expenditure investments, as well as to finance its working capital needs. This refinancing project is expected to be completed by early October 2005. Upon that time, the majority of the Group's interest bearing debts will be in the form of long-term bank loans. The maturity period will be more suitable to the future growth of the Group. As 2005 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$73.5 million for the Period which compared with HK$48.1 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 expect that the gearing ratio for 2006 will be considerably lower than that for 2005.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

The debtor turnover days in the Period was improved to 80 days from 87 days in the Corresponding Period as a result of timely following up of customer payments. Creditor turnover days in the Period was approximately 78 days, which is slightly longer than the Corresponding Period of 76 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 programs.

EMPLOYMENT AND REMUNERATION POLICY

At 30 June 2005, the Group had approximately 98 employees in Hong Kong (31 December 2004: 93) and employed a total work force of approximately 4,488 (31 December 2004: 3,676) inclusive of its staff in China and overseas offices. Total headcount increased mainly for the expansion of a major manufacturing base 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.

OUTLOOK

We continue to expect a strong performance in the second half of 2005. This can be evidenced by the increased orders from our customers. As the Group is operating at close to full capacity, the Group will focus most of its production on higher value and higher return items. With the new Wuxi facility commencing operation in July 2005, we will see some volume growth in our Wuxi area in the second half of 2005.

OUTLOOK (continued)

Going into 2006, we also see considerable opportunities for the Group to grow further. The Group's visibility to future business and orders are quite strong. We are now working with our key global customers to develop and approve the product lines for year 2006 and beyond.

A 48% joint venture company is developing an industrial estate in Dongguan. By mid 2006, when this industrial estate is built, the Group will relocate its existing Dongguan facility to the new centralised production centre at a slightly favourable market rental. This new location will allow the Group to further increase its Dongguan production capacity from the existing level of 500 million pieces per month to a target output of up to 650 million pieces per month.

Further growth in the production capacity of Wuxi is expected. We will be able to see this new facility producing up to 200 million pieces per month by mid 2006.

Our Xiamen plant will continue to contribute approximately 40 million pieces of products.

Although the Group is facing challenges such as pricing pressure from customers and rising costs of energy and raw materials, the Group is confident about its future development. With the wide application of the Group's electrolytic capacitors in power supplies, computers and peripherals, telecommunication and electronic equipment and positive feedback from major customers of their market outlook in the future, the Group is confident in delivering yet better results in the second half of 2005.