

Electroplating Equipment Business (under the trade name of "PAL")

MARKET SITUATION – PRINTED CIRCUIT BOARDS

After the hectic activity in 2004, sales of equipment to the Asian Printed Circuit Board ("PCB") market has understandably slowed down slightly during the first part of 2005, with major producers consolidating their new investments and bringing new plant up to full-scale production levels. The demand for PCB's, however, continued to grow, driven to a large extent by the further growth in the sales of mobile phones. The estimated number of units sold in 2005 was approximately 775 million, an increase of 15% on the previous year. Therefore, as the second half of the year came along, further requirements for electroplating equipment to meet the growing demands for PCB's also became necessary for PAL's major customers, leading to stronger third and fourth quarters.

In Europe and the USA, after several years of contraction, the PCB industry reached stability and indeed some small growth over the previous year. Although mass production of PCB's has largely migrated to Asia in general and PRC in particular, Europe and the USA continue to maintain an important PCB industry, based on advanced technology, servicing the military, medical and other high-tech applications where large volumes and highly competitive pricing are not the major factors. Two major orders, one in Europe and one in the USA, were delivered by PAL during the period.

MARKET SITUATION – SURFACE FINISHING

The continuing growth of the automotive industry in PRC has lead to further movement eastward of major North American and European suppliers to that industry. The JIT (just-in-time) culture of the car-makers dictates that the suppliers of components, which are often bulky or heavy, have to stay close to their customers – geographically as well as metaphorically! PAL's Surface Finishing ("SF") team has been able to benefit from our position and knowledge of the Chinese business environment to offer a complete package of electroplating and support equipment to these "newcomers", resulting in a further growth in that sector of our business.

MARKET STRATEGY

It is our aim to continue to expand both the PCB and SF areas of the market. The goal is to gradually increase the SF share to 50% of the total turnover. During 2005 the share increased from 13% in 2004 to 28%. Apart from increasing the total market potential for PAL products, this diversification helps to protect the company from the cyclical effects of the PCB market.

In 2005, PAL signed a major agreement with the Enthone division of Cookson Electronics to supply, on an exclusive basis, certain types of SF equipment to its customers throughout Europe. This opens a completely new market sector for PAL products, which should bring benefits in the coming years.

Management Discussions and Analysis

A number of other “strategic alliances” are being actively pursued, with the aims of broadening our product range and being able to offer customers new and innovative features to add to our traditional well-engineered and reliable equipment.

The PCB industry will continue to develop and expand in Asia, with new areas such as Vietnam coming on stream. It is PAL’s intention to maintain close contact with all major manufacturers, to keep abreast of their demands and future requirements, and to channel our product development activities accordingly.

PRODUCT DEVELOPMENT

The huge growth in consumer electronics, in particular mobile phone production, and the ever-widening range of functions on offer, has lead to the requirement for PCB designs of increasing complexity and miniaturization. The development of “blind” microvias and “filled” microvias to meet these demands has added additional electroplating steps to the PCB manufacturing process. Previously a double-sided or multilayer PCB was electroplated once only in its manufacturing cycle. The high-tech boards of today and tomorrow will require two, three or even four electroplating steps in the production process. It is not difficult, therefore, to see that the future for equipment makers who can successfully electroplate these complex PCB’s is bright indeed.

PAL’s approach to this challenge is to continue to develop and improve the performance of our range of vertical in-line plating equipment to successfully electroplate blind and filled microvias and to automatically handle thin and flexible materials. Much of the resources of the New Technologies and New Product Development Departments are currently going into these important projects.

Another interesting development is the growth in demand for “flat screen” television sets. The major technology to produce these is LCD (Liquid Crystal Display), which previously did not require electroplating. However, improvements in the technology to produce bigger screens at lower cost, may introduce the necessity to electroplate the glass screens as part of the production process. PAL’s New Technologies Department has set up a project to study this technology and to develop equipment to carry out the process. At present the project is in the very early stages, although initial indications are favorable.

FUTURE OUTLOOK

With the Asian Printed Circuit Board industry in good condition, with further investment requirements for both technological and expansion reasons, and the industry in Europe and the USA showing signs of improved performance, PAL has reasonable expectations that the coming year will be a profitable one. The growth of the SF market share and our growing reputation in that sector further enhance the feeling of conservative optimism for a strong 2006.

Business operated by major associated companies

Intech Machine Company Limited ("IML") which the Group holds 28.57% interest has made remarkable growth in both turnover and operating profit. After converting the financial results of IML from Taiwan Accounting Standards to Hong Kong Accounting Standards, the adjusted turnover of IML was HK\$457,760,000 (2004: HK\$334,398,000), representing an increase of 36.9% as compared with last year. The adjusted profit attributable to IML's shareholders was HK\$36,239,000 (2004: HK\$24,929,000). The growth was due to significant increase in sales to Flat Panel Display sector and improved gross margin for orders generated from Printed Circuits Board sector.

Asia Vigour (Holdings) Ltd ("AVPH") which the Group holds 42% interest has held various concerts during the year and has recorded a loss of HK\$959,000 (2004: profit of HK\$1,968,000). The loss was mainly attributable to investment in developing new income stream including artist management and CD/DVD production for selected singers.