



Management Discussion and Analysis

BUSINESS REVIEW

Turnover of the Group decreased by HK\$9,856,000 (or 2%) to HK\$426,676,000 for the year under review. (2004: HK\$436,532,000)

The Group reported a loss attributable to equity holders of the parent of HK\$259,075,000 for the year ended 31 December 2005. (2004: HK\$102,793,000)

The primary loss for the year came from the photomasks project. Having taken into account of the provision for depreciation for the project, the loss for the year incurred by this project amounted to HK\$226,377,000.

Photomasks Remarkable

Since the Remarkable business did not have sufficient experience and is not well-known name in the industry, effort in marketing is required. In order to open up the market, Remarkable provides more discount to the manufacturers which work with us for the first time and to those long-term important manufacturers. We utilized the price and services advantage to win the orders and attracted potential customers to transfer their orders for our photomasks. The sales in the first half of 2005 were relatively low. However, the sales improved in the second half of the year. Counting on our friendly and cooperative relationship with our customers and their trust in us, plus over a period of evaluation by our customers, the number of customers had increased.



The fixed costs of photomask industry were high. The depreciation of the equipment of Remarkable photomask factory reached HK\$78,985,000. This is the main reason why the division could not balance its budgets. Since Remarkable recorded loss for 3 consecutive years, the Group has commissioned Sallmanns (Far East) Ltd to carry out a valuation on the assets of photomask project as at 31 December 2005, which resulted in an impairment loss totaling HK\$123,671,000.

Telephone accessories and power cords

Material and energy costs rose continuously in the year 2005 and there was severe price competition in the market. Thus, the Group has adopted a series of measures including sales price enhancement, purchase cost minimization, product improvement, and manufacturing charges and administration expense control. For the year ended 31 December 2005, although the turnover of the department dropped by HK\$16,859,000 to HK\$222,632,000, the operation loss has not enlarged and maintained at HK\$13,215,000, similar to last year's.



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The Group has accelerated their pace in expanding business in China and Hong Kong. This has been started at the end of 2005. The response from customer was good and some encouraging results was achieved.

Although the Group had been continuously raising the prices and had been procuring materials with lower prices, it could not offset the loss due to increase in materials costs.

Adaptors and electronic products

Turnover for the year was around HK\$96,295,000, recording an increase of HK\$4,415,000 from 2004. Loss for the year decreased from HK\$14,937,000 in 2004 to HK\$6,445,000.

For the conventional adaptor business, we continued to find new customers. This helped to increase the turnover. In the second half of 2005, we successfully secured the order for automobile battery charger, with the first delivery at the beginning of 2006. The results of the increase in sale can only be reflected in 2006.

In 2005, regarding the metal materials, the price for the main copper components (enameled wire) of adaptor continued to rise and this seriously affected the material costs. However, for plastic materials, although the price increased in the market, the Group by successfully improving the formula for plastic design stabilized the costs of plastic materials and achieved to reduce the loss for the division.

Printed circuit boards

Printronic Group Limited recorded a turnover of HK\$49,427,000 representing a decrease of HK\$15,902,000 or 24% as compared to HK\$65,329,000 in 2004. In terms of production volume, the number of feet sales decreased by 15.97% as compared to 2004. The reason for drop in sales in 2005 was due to the drop in orders from major clients. At the same time, the wearing out and shortage of equipments led to decrease in manufacturing efficiency and deteriorating technology level, which in turn enhanced the difficulty in hunting down new clients and resulted in unsuccessful development of new markets. Operating loss in 2005 was HK\$10,336,000, a huge drop in the operating results as compared to a slim profit of HK\$956,000 in 2004. The decrease in operating profit is primarily due to globally increase in prices of materials, especially metals like gold, copper,



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nickel, basic energy resources like diesel, water and electricity. The wearing out of equipments and the weakened control of production quality resulted in the wastage costs and scraps. The orders in the market was insufficient and structure of orders was poor. Facing severe purchasing environment and difficult markets, the Company strictly controls various costs and expenses, so as to achieve the target of controlling costs and expenses.

High-precision metal components

Sales in 2005 increased by HK\$11,369,000 to HK\$66,344,000 as compared to HK\$54,975,000 in 2004, the growth rate amounted to 20.6%. Production volume in 2005 increased by 25% as compared to 2004. Due to the increase in the prices of materials and basic resources, wearing out of equipments, and insufficient production efficiency, the gross profit margin in 2005 decreased by 3.6% as compared to 2004, which affected the operating profit in 2005 and recorded HK\$3,049,000 only, representing a decrease of HK\$1,442,000 as compared to HK\$4,491,000 in 2004. As the Company implemented reforms in operating mechanism and introduced the motivation mechanism, the production results improved. The factories upheld the management strategy of: improving strict control in materials inputs and wastage, focusing on the continual improvements in production technology and quality, rationalizing each production costs and expenses. We seek for areas of improvements and take relative measure to put it into practice so that we can exert reasonable and effective control over individual material costs, production costs, production management costs.

Jointly controlled entity – copper wire

Owing to the huge increase in copper price, the turnover of Hoperise Industrial Limited increased abruptly to HK\$1,048,724,000 in 2005. (2004: HK\$773,720,000). Due to the rise in exchange rate of Taiwanese Dollars, and Hoperise had bought a large amount of materials at a low price in 2004, the profit in 2004 was higher than that in 2005. As a result, the profit attributable to the Group decreased to HK\$26,159,000. (2004: HK\$35,141,000).

Associate – Tianjin Printronics Circuit Corporation (“TPC”)

Turnover for the year increased by 12% from HK\$216,262,000 in 2004 to HK\$242,478,000. However, the increase in business costs led to slight increase in the profit attributable to the Group from HK\$10,388,000 to HK\$10,493,000.

3S projects (GPS, GIS, RS)

Sales of HK\$132,000 has been achieved. As larger provision for impairments has been made for the research project and other assets, the loss for the year increased to approximately HK\$12,299,000.



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Acquisition of Shares of Sino Stride Technology

There was no material acquisition during the year under review except for the acquisition of shares of Sino Stride Technology. Since the balance sheet date and till 4 April 2006, the Company had issued 516,465,926 new shares of the Company as the consideration of acquiring 774,669,000 shares of Sino Stride Technology which was equivalent to 71.3% of the issued share capital of the Sino Stride Technology.

Disposal of Property

There was no material disposal of assets during the year under review except for the disposal of the Group's property. After the balance sheet date and on 28 February 2006, the Group had completed the disposal of San Tai Industrial Building located in Kwun Tong at the consideration of HK\$38,800,000. The net proceed from disposal of property was approximately HK\$38,380,000. The carrying value of the property in 31 December 2005 was HK\$32,933,000.

PROSPECTS

Following the rapid growth of the semi-conductor manufacturing industry and speedy growth of IC design industry in Hong Kong's peripheral regions, the demand for photomasks used in the production of IC gradually increases, it will take some time for the Company's photomask company to capture with the upstream IC design companies and downstream Foundry factories. However, there are rooms for increment and growth. Currently the Company will strive to enhance its productivity, increase its production value and expand its market share. A performance turnaround is expected in the near future.

Traditional labor-intensive manufacturing business includes telephone accessories and power cords, adaptors, printed circuit boards and high precision metal components. In order to cope with the hiking price of raw materials, the management on one hand actively negotiates with clients to pursue increment in sale price as soon as possible which has been reflected in the elevated price of raw material. On the other hand, the management strengthen has been reflected in control in product quality and improve product design as to optimize the result.

After the balance sheet date, international copper price continues to climb and reached the highest level among these years. The Group's copper wire drawing associated company will maintain normal production and prudently control the standard of purchase and inventory and minimize the impact of copper price fluctuation on our performance.

In order to expand the scale of production, the Group's associate TPC, the manufacturer of printed circuit boards, is now undertaking a plan with investment amount of RMB120,000,000, and converted part of the accumulative revenue to the issued share capital of the Company. Accordingly, ordinary shares of TPC of RMB1 per share held by the Group increased from 27,288,981 shares to 41,319,704 shares, maintaining a holding ratio of 28.17%.



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The Group has long been exploiting new business opportunities as to diversify its existing business and enhance its financial performance. Therefore, it is considered that investment in Sino Stride Technology provides an appropriate platform for the Group to further expand its business and enhance its profit in the near future.

The Directors believe that such transaction will integrate the professional knowledge of the Sino Stride Technology in the industry of system integration with the strong business connection of the Group in China and overall, will benefit to the shareholders of both the Group and Sino Stride Technology.

Liquidity and financial resources

At 31 December 2005, the Group's gearing ratio (total borrowings divided by equity) increased to 0.37 (31 December 2004: 0.29) whereas current ratio (current assets divided by current liabilities) decreased to 0.96 (31 December 2004: 1.20).



Bank loans decreased by approximately HK\$4,081,000 to HK\$114,067,000 as at 31 December 2005.

After taking into account the existing cash resources and unutilized banking facilities, the directors are of the opinion that the Group will maintain an adequate liquidity position throughout 2006.

Capital Commitment

At 31 December 2005, the Group had capital commitments contracted but not provided for amounting to approximately HK\$4,217,000 (31 December 2004: HK\$278,000).

Exchange rates fluctuations

As at the balance sheet date, loans in the amount of HK\$63,197,000 and HK\$24,700,000 due by the Group to a related company and a shareholder respectively were settled in Renminbi. In addition, exposure to fluctuation in exchange rates was immaterial to the Group's financial results as both the Group's borrowings and revenue were mostly denominated in Hong Kong Dollars or United States Dollars.

Capital structure

There were no movements in the ordinary share capital of the company during the period.



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Contingent liabilities

The contingent liabilities of the Group, mainly from guarantees for banking facilities granted to a jointly controlled entity, decreased from approximately HK\$125,610,000 as at 31 December 2004 to approximately HK\$81,733,000 as at 31 December 2005.

Pledge of assets

As at 31 December 2005, certain of the Group's assets with an aggregate net book value of approximately HK\$230,063,000 (31 December 2004: HK\$402,133,000) were pledged to secure general facilities granted to the Group, of which the aggregate value totaling of HK\$164,125,000 (2004: 273,427,000) relates to investment properties, leasehold land and buildings, machinery, inventories, accounts receivables and deposits pledged to secure bank borrowings and banking facilities, whilst the remaining HK\$65,938,000 (2004: HK\$128,706,000) relates to machinery and equipment under finance leases.

Sales Order Book

Compared to 2004, there were no material changes in sales orders position during the year under review. Given the nature of business, the Group believes that the sales order position has remained stable in the foreseeable future.

Employees and remuneration policies

The Group had a total of approximately 3,282 employees as at 31 December 2005.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration to motivate and retain existing employees and at the same time to attract potential employees. Remuneration packages are structured in such a way that take into account local practices in the various geographical locations in which the Group and its associates operate. These remuneration packages include basic salaries, allowances, retirement schemes, service bonuses, fixed bonuses, performance related payments and share options where appropriate.