

Results

In year 2001, the Group had faced the significant decline of the global electronics industry. The negative impacts of the burst of the Internet bubble in late 2000 had dragged on much longer than expected and was further aggravated by the tragic events of September 11. These continued to prolong the already sluggish consumer spendings, despite the aggressive interest rate cuts by the US Federal Reserve in an attempt to boost the U.S. economy. All these had impacted unfavourably on the Group's Printed Circuit Board ("PCBs"), Liquid Crystal Displays ("LCDs") and Magnetic Products Businesses.

Turnover of the PCB Business decreased by HK\$486.9 million or 33.0% to HK\$990.5 million for the six months ended 31 December 2001 (the "Period") from HK\$1,477.4 million for the six months ended 31 December 2000 (the "Previous Period").

Profit of the PCB Business before tax and minority interest for the Period stood at HK\$110.8 million, a decrease of HK\$170.1 million or 60.6% from HK\$280.9 million of the Previous Period. The PCB Business has made HK\$52.8 million contribution to the Group's net profit for the Period. In the Previous Period, the Group's share of the PCB Business's profit amounted to HK\$102.2 million.

The Group has incorporated PCB Business in its consolidated financial statements for the Period, which was only equity accounted for in the Previous Period.

The aggregate turnover of the LCD and Magnetic Products Businesses for the Period was HK\$159.3 million, an increase of HK\$9.1 million or 6.1% over HK\$150.2 million for the Previous Period.

The consolidated net profit from ordinary activities attributable to the shareholders for the Period was HK\$16.4 million, a decrease of 80.8% or HK\$69.1 million from HK\$85.5 million in the Previous Period.

Basic earnings per share for the Period was 1.39 HK cents, a decrease of 81.0% from 7.30 HK cents (restated) for the Previous Period.

Business Review

Printed Circuit Boards

At the beginning of the Period, the electronics industry was still very much affected by the dotcom downturn. The excessive inventory of finished electronic goods leftover from year 2000 took six to nine months to clear after the Internet bubble burst. With the inventory cleared, a possible recovery seemed just around the corner as order bookings started to improve in August 2001 and highest shipments were recorded in September among the Period. The unexpected 911 tragedy dampened the possible recovery that might have been led by seasonal sentiments in the fourth quarter of 2001. Business after the 911 tragedy remained flat as customers took a cautious approach in placing new orders.

The Group's average PCB plant capacity utilisation during the Period was only maintained at around 65% to 70%.

A stronger pickup was noted in November and December 2001 for the computer sector compared with the relatively volatile communication sector. Sales of PCBs to computer and peripheral sectors contributed some 54% of the PCB's turnover during the Period as compared to 49% for the second half of the last financial year.

Over the Previous Period, the layer count mix improved with more 8-layer PCBs being produced for mobile hand-sets.

The decrease in global demand and the excessive PCB capacity naturally resulted in keener competition and the PCB Business experienced an average selling price decline of 15% and 17% as compared with the first and second halves of the last financial year respectively. The lower selling prices had a larger impact on higher margin products, such as 6-layer and above PCBs. The reduction in average selling prices could not be matched by the reduction in the major raw material prices and lower distribution costs.

Despite the adverse conditions, our strategy of moving to higher layer counts and newer manufacturing technology remains. During the Period, the Group had invested in high-density interconnect equipment and technology at the new Kaiping Plant III which has been successfully qualified by one of the Group's telecommunication customers.

The Nanjing Plant which is a joint venture set up to produce PCBs for the local consumer market in the East China area, was fully loaded most of the time during the Period. In order to capture this growing market sector, the joint venture company further invested US\$7 million to set up a new plant in Nanjing Economic & Technical Development Zone so as to increase its annual PCB capacity from the current 1.2 million square feet to around 3.0 million square feet within 12 months' time. The new Nanjing Plant commenced production after the Chinese New Year.

The Group has taken proactive steps to better manage the manufacturing costs. These included the temporary shut down of two of the thirteen PCB manufacturing plants, the lay-off of about 140 employees from Hong Kong operation and the deferment of capital expenditure on a need-to-spend basis.

Liquid Crystal Displays

During the Period, the Group carried out a major restructuring program in its LCD Business, in which the Dongguan Plant was closed and the LCD operations were consolidated in its Huangpu production plant. Costs incurred for the restructuring were approximately HK\$12.6 million. The closure of the Dongguan Plant and the downsizing of administrative headcounts reduced operating expenses of LCD Business by about HK\$28 million per year. The Huangpu Plant will focus on the higher value-added products that offer better margins.

Operating efficiencies had improved since the consolidation, and the LCD Business had started contributing operating profit to the Group since November 2001.

The turnover of the LCD Business for the Period was HK\$114.2 million, a HK\$12.2 million or 12.0% increase over HK\$102.0 million for the Previous Period. This was mainly due to the improvement in product mix than the Previous Period that the share of lower-end products decreased to 72% for the Period from 86% for the Previous Period. The average panel selling price of the Period improved by approximately 16% when compared with the Previous Period.

Operating result for the Period was HK\$9.1 million loss, which included a non-recurring expense of HK\$12.6 million for the restructuring exercise of the LCD Business as above-mentioned. Excluding this non-recurring expense, the LCD Business achieved an operating profit of HK\$3.5 million for the Period as compared with HK\$12.9 million loss for the Previous Period.

Magnetic Products

The turnover of the Magnetic Products Business for the Period was HK\$45.1 million, a 6.4% or HK\$3.1 million decrease from HK\$48.2 million turnover for the Previous Period. Operating result for the Period was a loss of HK\$2.2 million as compared with HK\$6.2 million profit for the Previous Period. The sluggishness of the electronics industry, and especially in the telecommunication, computer and networking related sectors, during the Period had resulted in a stagnant market and price cuts in magnetic products, particularly in long-run products.

During the Period, sales of components from new design wins that offer higher margins had helped to improve the overall sales margin.

Information Technology

The Group streamlined its Information Technology ("IT") Business during the Period in order to achieve cost-effectiveness in the services provided. The development of Supply Chain Management (SCM) software progressed according to plan, while more features have been added to enhance the software's versatility and functionality. During the Period, the Group also provided consultancy services for e-commerce and the implementation of business enterprise software.

The joint venture investment in China, Beijing Yilaida Information Technology Limited ("Yilaida"), started its work on building of an information portal to facilitate the import and export of electronic components in China. This information portal will be managed by committee members of the China Electronic Components Association ("CECA"), a semi-governmental body with over 1500 members throughout China. Yilaida provided professional services to local and foreign customers during the Period and will in the second half of the financial year 2002 also focus on providing consultancy services to CECA members, employing state-of-the-art technology to improve their throughput.

Future prospects

With a number of economic indices in the US showing signs of improvement in the last two months, industry analysts are inclined to believe that the US economy has bottomed out and a gradual improvement may be on the horizon.

In the medium and long term, the view of continued growth in the communication, networking, and personal computers and handheld devices sectors arising out of increases in demand remains unchanged.

China is forecast to achieve higher economic growth in the coming years. With a strong manufacturing presence in China, the Group is well positioned to take full advantage of the enhanced business opportunities in the region.

Printed Circuit Boards

In the short term, the PCB industry remains very much dependent on the magnitude of the economic recovery in the US and we expect the coming few months to be challenging.

As the quality and capability of China PCB manufacturers catch up and the cost advantage over PCB manufacturers in the US, Europe and Japan continues, overseas PCB manufacturers are losing their competitiveness. Because of this, the Group expects to see further consolidation in the PCB industry and more PCB plant closures to occur in the US, Europe and Japan which may result in an improved and more balanced global PCB capacity in the first half of the next financial year.

As a consequence of the current macro PCB industry conditions, the Group has decided to postpone the installation of our new Huangpu East Plant by around six months until the second quarter of the next financial year, by which time we expect our PCB capacity utilisation to have improved.

From the marketing perspective, the Group projects that the China PCB market will undergo the same high growth rate as the Southeast Asian market has experienced over the last seven to eight years as Original Equipment Manufacturers (“OEMs”) and Contract Manufacturers (“CMs”) begin to invest heavily in China.

A report on the PCB industry by BPA Management & Technology Ltd. revealed that, as a result of a similar migration by OEMs and CMs in the years from 1995 through 2000 to Southeast Asia, the PCB market in Southeast Asia, excluding Japan, grew during that period from US\$3.8 billion to US\$10.5 billion with a compound average annual growth rate of 22.4%.

In the medium and long term, the Group is still optimistic on the market growth in the region. In a preliminary industrial report revealed by NT Information Ltd., the Group continues to hold the largest PCB capacity in China in 2001 and, as such, is well positioned to take advantage of the growing regional business opportunities in the years ahead.

Liquid Crystal Displays

The LCD Business will maintain its strategy of focusing on higher value-added LCD products for telecommunication, medical, instrumentation and automobile sectors. Engineering, marketing and sales, and product managements will continue to be strengthened for quality, cost controls and improvements. Sales networks will be expanded in the US and Europe.

Magnetic Products

With its new products such as magnetic-integrated connectors and multi-port magnetic modules for networking/telecommunication applications coming on stream, and the development of power magnetic products for industrial applications, the Magnetic Products Business continues to position itself in line with these latest developments. Thanks to the support of our research and development centers and the global presence of our sales network, increased design wins and customer approvals have been obtained during the Period. With the continuous improvements in the automation and optimization of our manufacturing facilities, our products are more than able to satisfy the challenging requirements of different market segments, ranging from volume consumer products to high-end telecommunication products.

The average orders in take for the last two months have increased over the average for the six months period just past, as mainly attributable to the orders from new design wins.

Information Technology

Although the current IT market remains sluggish in Hong Kong due to the global economic downturn, the Group believes that with China's accession to the World Trade Organisation, more business opportunities will emerge as a result of the great demand for e-commerce applications and services in this area. The Group will continue to focus on this trend. At the same time, the Group will also consider to seek investment opportunities and collaborate with business partners in order to enhance its operations in the information technology sector still further.

Provided that the economies in the US and Europe gradually improve in the coming quarters, the Directors are cautiously optimistic of better results from all Businesses in the second half of the current financial year.

Interim Dividends

The Board announced to pay an interim dividend of 1.0 HK cent (2000: 3.0 HK cents) per share in respect of the six months ended 31 December 2001 to shareholders whose names appear on the Registers of Members on 19 March 2002. Dividend warrants will be sent to shareholders on or about 22 March 2002.

Closure of Registers of Members

The Registers of Members will be closed from 18 March 2002 to 19 March 2002, both dates inclusive. In order to qualify for the interim dividend, transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars in Hong Kong, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00pm on 15 March 2002.

By Order of the Board
David So Cheung Sing
Chairman

Hong Kong, 26 February 2002