

Chairman's Letter

RESULTS

The general economies and consumer markets in the US and Europe had seen improvement and growing demands in electronic products starting in the third quarter of 2003, following the fading away of SARS infection. Despite the better improvement in consumer spending and better market condition over the first nine months of 2003, the continuous price pressure on the consumer front and the competition in the supply-end remain challenging.

The Group achieved a total turnover of HK\$1,493.2 million for the six months ended 31 December 2003 (the "Period"), an increase of HK\$405.3 million or 37.3% as compared with HK\$1,087.9 million for the six months ended 31 December 2002 (the "Previous Period"). Double digits growth in turnover was attained for all businesses of Printed Circuit Boards ("PCB"), Liquid Crystal Displays ("LCD") and Magnetic Products.

The Group's operating profit and net profit attributable to the shareholders for the Period were HK\$158.8 million and HK\$66.9 million, representing increases of 66.6% and 113.1% over the Previous Period respectively. The Group's operating profit and net profit attributable to the shareholders for the Previous Period were HK\$95.3 million and HK\$31.4 million (restated) respectively.

Basic earnings per share for the Period was 5.60 HK cents, an increase of 2.93 HK cents or 109.7% from 2.67 HK cents (restated) for the Previous Period.

BUSINESS REVIEW

Printed Circuit Boards

With the US and Europe economy in steady pace of recovery, we saw strong PCB bookings in computer and computer peripheral product sectors starting from late August 2003, and mobile handsets and communication related products in October 2003.

This increase in world demand together with the continuous supply chain outsourcing into China have provided us with more opportunities to expand market share in the region. As at 31 December 2003, PCB backlogs further built up as the Book-to-bill ratio stood at above one for the Period.

As a result, the turnover of our PCB Business for the Period was HK\$1,254.6 million. The operating profit of the PCB Business for the Period was HK\$150.0 million up 60.4% from the Previous Period.

Layer count mix improved as a result of gaining market share in Centrino notebook and communication products applications. The Group's shipment percentage for 10-layer PCB in the Period was 6.9% higher than the Previous Period while shipment percentage for 2-, 4- and 6-layer PCB was 5.4% lower for the Previous Period.

Due to more balanced PCB supply and demand in the region, critical PCB raw material prices, such as fiber glass, copper foil and copper clad laminates have gone up by more than 10% since the end of the last financial year 2003. For the same supply and demand reason, PCB selling prices had also started moving upwards in October and November 2003. As a result of this together with better layer count mix, the average selling price ("ASP") of our PCB products for the Period has been moving up over the second half of the last financial year by 0.3% after continuously falling in the last two and a half years but was still lower than the Previous Period by around 6.9%.

As at the Period end, the Group's available PCB production capacity stood at around 35 million square feet per annum, though around three million square feet capacity as newly acquired in the second quarter of the current financial year 2004 would require another one to two months to ramp up in full.

Liquid Crystal Displays

The turnover of the LCD Business for the Period was HK\$176.2 million, an increase of HK\$54.3 million or 44.5% from HK\$121.9 million for the Previous Period. The increase in turnover mainly came from LCD modules (LCM) including chip-on-glass (COG) products, which had attained a total sales of HK\$47.8 million for the Period as compared with HK\$6.9 million of the Previous Period. Sales of LCD products had moderately increased over the Previous Period to HK\$116.2 million, mainly as a result of increase in sales of higher end and higher price STN products.

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The operating profit for the Period was HK\$17.6 million, a moderate 3% increase from HK\$17.0 million for the Previous Period despite the average LCD price dropped around 12% from the Previous Period. The profit increase was due to the volume expansion and manufacturing cost improvement.

Magnetic Products

The turnover of the Magnetic Products Business for the Period was HK\$62.4 million, an increase of HK\$13.9 million or 28.7% from HK\$48.5 million for the Previous Period, which was mainly due to the increase in sales of magnetic integrated connectors.

Despite an improving demand in overall corporate information technology market for both desktop and server products as well as the networking sector, the ASP of magnetic products remained competitive during the Period and experienced price erosion by about 14% from the Previous Period.

Nevertheless, the Magnetic Products Business had been able to maintain its operating profit mainly by expanding its market share and stringently controlling its material costs and operating expenses. As compensated by larger shipment volume and cost control effects, the operating profit was held at HK\$5.4 million, same as the Previous Period of HK\$5.4 million.

Information Technology

During the Period, the Information Technology ("IT") Business continued to provide services to the Group's companies and focused on developing industrial software products to meet customers' demand.

The joint venture investment of IT Business, Beijing Yilaida Information Technology Limited ("Yilaida"), had organized a series of successful activities in China such as the symposium and exhibition on procurement of electronic components for mobile phone industry and seminar topic on review of China's electronic components and information market for 2003. Yilaida also continued to provide consulting services to local and foreign customers during the Period.

FUTURE PROSPECTS

With affirmed economy improvements ahead, the Group is expecting to face growing business opportunities in the second half of the current financial year.

Printed Circuit Boards

Industry analysts have shown more confidence that the global PCB market has bottomed out and restarted its upward trend. They also affirmed that the growth of the PCB market in the region will surpass that of the rest of the world due to the following reasons:

1. the continuous trend in outsourcing the manufacturing of electronic products into China fuels the local China PCB demand, particularly in the high volume and medium technology PCB sector; and
2. the continuous global supply chain migration into China adds export business opportunities for low to medium volume and high technology PCB products.

Seasonal impacts after December should be minimal with slight adjustments in computer and computer peripherals products and PCB demand in communication products and consumer products remains strong. Book-to-bill ratio in January 2004 maintained at slightly below 1.0.

With growing business in existing and new communication customers, the Group expects greater PCB demand for application of communication products in the second half of the current financial year, which would bring about an even better layer count mix.

It is expected that critical raw material prices may trend further upwards and as a result, PCB selling prices should be able to hold well and even move slightly upwards in the coming months. This, together with the layer count mix improvement, the ASP of our PCB products is expected to improve further in the coming months.

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The PCB Business's expansion plan is on track with the Guangzhou East plant already available and the construction of a new Kaiping plant underway. We expect to reach 38 million square feet capacity per annum by June 2004. With these plants available, the Group will have the flexibility to further expand its PCB production capacity by another 5 million square feet in around 12 to 18 months' time. The Group will cautiously evaluate the business opportunities available from both the existing customers and newly developed customers and will launch another expansion plan when the right market opportunities warrant.

Liquid Crystal Displays

The general economic recovery offers increasing opportunities to the LCD Business, especially in the telecommunication and office automation sectors. Sales teams are further strengthened and positioned to capture these business opportunities.

LCM products' market share is expected to further grow in the second half of the current financial year, with orders from the enlarged customer base. For LCD products, we will continue to focus on increase in production and sales of STN products which offer higher price and higher margins.

Demands for colour display products remain strong in the market. Progress on the development of this new product range is on plan. Initial production is expected by the end of the current financial year.

The performance of the LCD Business for the current financial year is expected to achieve impressive improvements over the last financial year both in turnover and operating profit.

Magnetic Products

During the Period, the Magnetic Products Business has managed to get customized electronic modules approved by various major customers. This new line of products will bring additional business along with the established businesses of magnetic components and magnetic-integrated connectors.

To cater for the upcoming business expansion, additional production capacity is in process of setting up and expected to be completed by the end of the current financial year.

With the new electronic modules and new capacity in place, the Magnetic Products Business is expected to further improve in the second half of the current financial year.

Information Technology

As the economy is gradually picking up, the IT Business will play an instrumental role within the Group to assist the organization in creating customers' value as well as providing efficient and effective customer-satisfying services.

Yilaida will continue to provide consulting services to its customers and organize similar exhibition activities in China either on its own or in association with other reputable bodies within the electronic component industry.

Barring unforeseen circumstances, the Directors expect the Group should continue to show good results in the coming months.

INTERIM DIVIDEND

The Board announced to pay an interim dividend of 1.6 HK cents (2002: 1.5 HK cents) per share in respect of the six months ended 31 December 2003 to shareholders whose names appear on the Registers of Members on 5 March 2004. Dividend warrants will be sent to shareholders on or about 9 March 2004.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed from 3 March 2004 to 5 March 2004, 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, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 pm on 2 March 2004.

By Order of the Board
Thomas Tang Koon Yiu
Chairman

Hong Kong, 12 February 2004