



## BUSINESS REVIEW

The financial year ended 30th April, 2001 was a year of varying market conditions. Strong worldwide economic growth was recorded in the first half of the year, followed by the precipitous downturn that began in late 2000. We delivered first half-yearly results in line with expectations. Even with the economic downturn that began late in the third quarter of 2000, the Group has executed very well to record outstanding turnover growth in a time of remarkable near-term market uncertainties. Turnover for the full year climbed 27.9% from HK\$271,292,000 to a record high of HK\$347,004,000 in the current financial year.

The growth was a reflection of the Group's success in preserving and strengthening its market position in the electronics industry, notwithstanding the noticeable downturn in the market. To a large extent, the growth was attributable to solid execution across the board - the Group's relentless efforts in expanding and upgrading its production capacity and sharp focus on building a stronger market presence.

Profit attributable to shareholders for the year was HK\$30,863,000, a notable achievement given the news from leading global electronics manufacturers were generally not positive. This was down 26.4% from HK\$41,910,000 in the previous year. It is, however, noteworthy that given the very tough conditions we faced in our overall operating environment, where virtually all industries alike have been dampened, our core business in the markets for coils continued to report robust achievement and present attractive growth prospects. The gross profit margin for the coils business segment was maintained at approximately 34.1% for the current year, compared with approximately 34.6% in the previous year. Under these circumstances, the Group has been steering for the correct direction during the year by investing actively, meanwhile cautiously, in our core business segment, the manufacture of coils, with a view to serving our prestigious customers in the segment better and winning their votes of confidence in the Group.

Several factors had an impact on the Group's profit attributable to shareholders for the year, as revealed in the following review of operations.

## Chairman's Statement

### Investment for Our Future

Although the second half of the financial year ended 30th April, 2001 was a time of worldwide economic slowdown, which was especially apparent in North America, Europe and Japan, the Group has been pushing very hard to speed up the pace of reinforcing its core business foundation in preparation for the expected market rebound. The Group remained focused on the substantial investment in a bid to boost its production facilities in Zhongshan, Guangdong Province, which comprised several new factory blocks fitted with sophisticated and advanced machinery for the manufacture of such components as chip inductors, fixed inductors and ceramic capacitors, etc. Installation of state-of-the-art automated production facilities for manganese-zinc series ferrite cores, line filters and electromagnetic interference ("EMI") filters was also underway as at 30th April, 2001.

Earnings before interest, taxes, depreciation and amortisation ("EBITDA", defined as profit from operations plus depreciation and amortisation) was HK\$86,457,000, up 10.8% from HK\$78,039,000 last year.

For the whole financial year ended 30th April, 2001, the Group has devoted more than HK\$223,000,000 in the aggregate to the addition of property, plant and equipment. Of this amount, approximately HK\$190,000,000 and HK\$19,000,000, respectively, were spent on acquiring new machinery and building new factory premises. The Group's dedicated



## Chairman's Statement

investment in enhancing the production infrastructure in the year under review has led to a 50.4% jump in depreciation of property, plant and equipment from HK\$22,842,000 to HK\$34,356,000 in the current year.

The expansion projects were mainly financed with new long-term bank loans and finance lease arrangements of HK\$88,325,000 and HK\$56,794,000, respectively, during the year. This has pushed up our interest expense by 88.1% from HK\$10,367,000 in the previous year to HK\$19,499,000 for the current financial year, which substantially outpaced the 27.9% growth in turnover. On a before-interest basis, profit from operations has just decreased year-over-year by 6.3% from HK\$55,197,000 to HK\$51,745,000.



As to our investment on human resources, in order to reinforce all levels of management and staff to match with our expansion strategies and prepare for the kick-off of the newly installed production lines for manganese-zinc series ferrite cores and coils products, the Group has continued to devote a lot to the investment on our human assets. In particular, the Group's research and development arms were significantly strengthened during the year under review, with a view to enhancing our competitive edge in product innovation and refinement of production methodology. For the year ended 30th April, 2001, aggregate staff costs have risen by 27.1% from the previous year and reached HK\$87,210,000.

Although each of the above factors individually had a relatively modest impact on our margins, taken together the effects were clearly significant on this year's overall operating and financial performance. The net profit margin was correspondingly down from 15.4% last year to 8.9% for the current year.

While the above large-scale capital investment in our core business segment did have an immediate and adverse impact on short-term profitability, the Group strongly believed that all such initiatives were essential and vital to building an even more promising future for the Group. Thanks to the information technology era as the world entered into the new millennium, it remains clear that the dynamic growth in global demand for high-quality and miniaturised electronic components will be sustained well into the future. With a vast amount of network deployment and upgrading throughout the world still ahead, the Group cannot afford to miss the business opportunities due to arise. The Group has therefore come up with the conclusion that no delay in the implementation of expansion