



BUSINESS REVIEW

The financial year 2001/2002 has been a year of challenges so far. There have been tremendous and unexpected changes during the period under review. While China's accession to the World Trade Organisation ("WTO") raised hopes for a new economic outlook, yet the terrorist attack in the United States on 11th September has worsened the already adverse market conditions around the world with the United States being further depressed from economic slowdown to recession. This unfavourable market environment created a flood of negative news ranging from staff redundancies and capital expenditure cuts to factory closures and business restructuring. Virtually all electronics manufacturers alike were stricken hard on a global basis in such a difficult economic climate.

Despite the poor market sentiment, the Group recorded a turnover of approximately HK\$184,253,000 and profit attributable to shareholders of approximately HK\$10,477,000 for the six months ended 31st October, 2001 with its solid foundations in the industry, the dedicated efforts of our staff and a highly prudent operating philosophy. Although the turnover and profit attributable to shareholders were down 1.8% and 61.9% respectively from the corresponding period last year, the improvement in business in the second quarter as compared to the first quarter was remarkable, where the second quarter turnover of approximately HK\$104,483,000 was up 31.0% and 7.7% respectively as compared to those for the first quarter this year and the second quarter last year. The Group also maintained its gross profit margin at a high level of approximately 29.4% for the six months ended 31st October, 2001, which reflected our competitiveness even in a harsh market environment.

During the previous financial year 2000/2001, the Group grasped the opportunity to further expand and automate its production facilities at a relatively low cost level, all with a view to paving the way for future business development.

The resulting diversity and



quality of our products helped the Group to win the support of our long-standing customers and strategic alliance partners. Meanwhile, the staff has been sharing the Group's commitment, striving to broaden its business with cost reduction to maintain reasonable results. With our solid foundations, the Group will be able to capture rising market opportunities when the economy turns around.

Proactive Approach to Strategic Alliances

Strategic partners have been playing a key role in the Group's development. Since the Company's listing, two well-known and well-established listed companies in Japan, Nittoku Engineering Co., Ltd. ("Nittoku"), a manufacturer of coil-winding machines, and Toko Inc. ("Toko"), a leading international coils manufacturer, have been increasing their support for the Group, providing the Group with sophisticated manufacturing technologies and extensive distribution networks respectively. The two partners even took a step further to financially support the Group's long-term development. It is therefore one of the Group's priorities to further strengthen these strategic partnerships.

During the period under review, Nittoku once again demonstrated its support for the Group by enlarging its shareholding in the Company from approximately 4.8% to approximately 7.7%. In September 2001, the Group entered into an agreement with Nittoku for the subscription of 20,588,235 new shares in the Company at a subscription price of HK\$0.68 per subscription share, which was completed on 9th October, 2001. The net proceeds from the subscription amounted to approximately HK\$13,832,000 and have been applied as general working capital of the Group. The Group strongly believes that Nittoku's subscription will not only strengthen our cooperative relationship, but also display Nittoku's confidence in the Group's business and future prospects.

Effective Actions to Control Net Gearing Ratio

As the Group adopted a proactive approach to expansion of production facilities last year and most of the Group's capital expenditure was financed by borrowings instead of equity financing, the net gearing ratio has been on the increase. Regarding the Group's non-compliance as at 30th April, 2001 with one of the financial covenants imposed by its major bank that the net gearing ratio should not



exceed 0.6:1, the Group has taken prompt and effective actions during the period under review. The major bank has already agreed to relax the limit up to 0.85:1. As at 31st October, 2001, the Group's total borrowings amounted to approximately HK\$291,212,000 (as at 30th April, 2001: HK\$255,558,000) whereas total cash and bank deposits rose to approximately HK\$63,068,000 (as at 30th April, 2001: HK\$55,714,000). The Group has effectively checked the net gearing ratio, defined as total borrowings less total cash and bank deposits over net tangible assets, to approximately 0.78:1 (as at 30th April, 2001: 0.76:1), which was in compliance with the financial covenants as agreed between the Group and the major bank.



As at 31st October, 2001, the Group's aggregate banking facilities climbed to approximately HK\$324,431,000 (as at 30th April, 2001: HK\$302,624,000), of which approximately HK\$58,428,000 (as at 30th April, 2001: HK\$65,727,000) remained unutilised.

Commencement of Production of Manganese-Zinc Series Ferrite Core Products

With the installation of automated and sophisticated production facilities in the previous year, the production line for manganese-zinc series ferrite core products commenced operations in the second quarter of the financial year. The new facilities have substantially boosted the Group's production capacity.

Thanks to the high quality, the launch of manganese-zinc series ferrite core products, line filters and transformers manufactured in the newly installed state-of-the-art production facilities have been strongly welcomed by manufacturers of electronic products with rising quality consciousness. With the drastic technological revolution in the electronics industry, the demand for quality electronic components is being driven up continuously, which will be stimulated further when the global economy recovers. The Group is well positioned to cater for this trend with the efficient expansion of production capacity in Zhongshan. As such, the Group believes that the manganese-zinc series ferrite core products will bring in reasonable returns in the future and broaden the sphere for long-term development.

