

BUSINESS REVIEW

In the financial year 2001/2002, the global economy was rather slackened. The unending flow of negative news flooded the markets. As a result of the 11th September attack in the United States, the global business environment has worsened even further. Price bargaining among electronics manufacturers intensified, exerting considerable negative impact on the price of electronic products. Among all, the price of traditional electronic components dropped the most significantly. This has led to widespread falls in the profits of electronic components suppliers.

Nevertheless, with the Group's implementation of effective and efficient cost control measures, overheads have been greatly cut whereas turnover was boosted. Meanwhile, its strong research and development capabilities enabled the Group to relieve the pressure arising from the substantial price drops in its products and raise its turnover. Thanks to these favourable factors, the Group was able to maintain its gross profit margin at a level of approximately 27.6%.

For the three months and nine months ended 31st January, 2002, the Group recorded a turnover of approximately HK\$91,988,000 and HK\$276,241,000, respectively, up slightly by approximately 12.6% and 2.5% as compared to the same period in the previous year. Profit attributable to shareholders was approximately HK\$2,320,000 and HK\$12,797,000 for the three-month period and nine-month period respectively. The results were considered satisfactory given the harsh operating environment.

Despite the poor market sentiment, the Group's turnover showed signs of pick-up in January 2002 with a remarkable rebound. The Group, therefore, believes that the electronics industry is on its step to an economic recovery cycle, and business will improve steadily.

Effective Cost Control

Apart from the external economic influences, the Group's internal cost control was also a crucial factor contributing to its results, particularly during such a difficult economic time. During the period under review, the Group has taken prompt actions to reduce costs and generate profit. Furthermore, the Group's earlier investments in plant expansion as well as its commitment to research and development have started to bear fruit, broadening the variety of products offered and increasing the turnover. The negative impact brought by the fall in prices of electronic components was effectively alleviated.

Since certain of the Group's raw materials, plant and machinery were imported from Japan, the depreciation of Japanese yen during the third quarter has correspondingly lowered the costs of raw materials, plant and machinery to the Group. This has contributed to further savings in the Group's overheads.

Financial Position

The Group is committed to strengthening its financial position. The Group's prospects and its confidence in the future business were reflected in the continuing financial support of the Group's principal banks. On 31st January, 2002, the Company successfully entered into a 3-year transferable term loan and revolving credit facility agreement for an aggregate amount of HK\$100,000,000 with a group of banks. The facility consists of a term loan for an aggregate amount of HK\$60,000,000 to repay existing bank loans and other indebtedness of the Group, and a revolving credit facility for an

aggregate amount of HK\$40,000,000 as general working capital of the Group. The facility was subsequently fully drawn down in February 2002. This agreement benefited the Group with an improved debt profile and enriched operating capital, which will contribute to a healthier financial position for its future development.

According to the Group's agreement with its major bank reached in the second quarter, the limit of consolidated net gearing ratio (total borrowings less total cash and bank deposits over net tangible assets) has been relaxed to 0.85:1. As at 31st January, 2002, the Group's total borrowings amounted to approximately HK\$288,779,000 (as at 30th April, 2001: HK\$255,558,000) whereas total cash and bank deposits were approximately HK\$52,410,000 (as at 30th April, 2001: HK\$55,714,000). The consolidated net gearing ratio was approximately 0.80:1 (as at 30th April, 2001: 0.76:1), complying with the financial covenants as agreed between the Group and the major bank.

As at 31st January, 2002, the Group's aggregate banking facilities expanded to approximately HK\$412,173,000 (as at 30th April, 2001: HK\$302,624,000), of which approximately HK\$148,534,000 (as at 30th April, 2001: HK\$65,727,000) remained unutilised.

FUTURE PLANS AND PROSPECTS ▲

Proactive Market Exploration in Mainland China

China's accession to the World Trade Organisation ("WTO") was successfully completed in late 2001. It is widely believed that the membership in WTO will create a new outlook for China, especially with respect to business development. Given that the restrictions imposed on foreign investors will be relaxed gradually together with improvements in the mainland's legal systems and infrastructure, foreign investments will mushroom in the coming future. With economic development being heavily based on technological advancement, the Group strongly believes that the demand for quality hi-tech electronic components from both national and foreign enterprises will climb up sharply, fostering the Group's business prospects.

Currently, the market in Mainland China accounts for approximately 6% of the Group's turnover. In view of the huge market potential in the mainland, the Group will take a more proactive approach in exploring this market to raise the proportion of its turnover generated from the mainland. To materialise this goal, the Group has been preparing actively for the establishment of more representative offices in developed and coastal cities in the mainland such as Qingdao, Hefei and Changzhou. The Group already established a representative office in Chongqing in November 2001, which reflected the Group's strong determination to develop the market in Mainland China.

Right Product at the Right Time – Stepping Stone for Market Development in Europe

Hi-tech audio-visual ("AV") and telecommunication products have been experiencing rapid development in Europe in recent years. The design and quality of these products have attracted abundant demand from around the globe. In view of the competitiveness of the market, European manufacturers are particularly demanding for quality and functionality in electronic components. The Group's products, such as toroidal transformers, line filters and anti-electromagnetic interference filters are well equipped with electromagnetic compatibility ("EMC"), which effectively reduces interference in the transmission of signals in AV products and telecommunication products. The quality, value and competitiveness of products will thus be substantially enhanced. With the functions and designs of miniaturised EMC components manufactured by the Group, the needs of different

electronics manufacturers will be well catered for. The Group is also committed to continuously upgrading its existing product line with innovative and new products. This will help the Group to further penetrate the European market with higher market share, paving the way for further development in Europe.

Conclusion

Despite the unfavourable factors in the environment, which has dragged the overall economy down, the Group will face future challenges with confidence by strengthening its own foundations, internal management and financial position to broaden revenue sources and minimise costs at the same time, in a bid to reward our shareholders with higher returns.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES ▲

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31st January, 2002.

DIRECTORS' INTERESTS IN SECURITIES ▲

As at 31st January, 2002, the Directors of the Company had the following beneficial interests in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) and in the warrants of the Company as recorded in the register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

(a) The Company

	Number of shares of HK\$0.10 each		Number of warrants
	Family interests	Personal interests	Personal interests
Mr. Lam Wai Chun (Note 1)	404,008,996	2,400,000	—
Mr. Saito Misao	—	750,493	—
Ms. Tang Fung Kwan	—	3,502,611	—
Ms. Hu Yan Huan	—	1,133,233	—
Mr. Lam Wing Kin, Sunny	—	50,000	480,000
Mr. Au Son Yiu	—	500,000	1,000,000

Notes:

- As at 31st January, 2002, Ka Yan China Development (Holding) Company Limited held 404,008,996 shares in the Company. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately beneficially owned by Ka Yan China Family Trust, the family trust of Mr. Lam Wai Chun. The beneficiaries under this family trust were Mr. Lam Wai Chun's spouse, Ms. Law Ching Yee, and his children who were under the age of 18 years, and accordingly Mr. Lam Wai Chun was deemed under the SDI Ordinance to be interested in all the shares held by Ka Yan China Development (Holding) Company Limited.

(b) *Associated corporation*
Coils Electronic Co., Limited

	Number of non-voting deferred shares of HK\$1.00 each (Note 4)		Total
	Personal interests	Family interests	
Mr. Lam Wai Chun (Notes 2 and 3)	7,500,000	6,500,000	14,000,000

Notes:

- Mr. Lam Wai Chun held 7,500,000 non-voting deferred shares of HK\$1.00 each in Coils Electronic Co., Limited, a wholly-owned subsidiary of the Company, representing approximately 53.57% of the 14,000,000 non-voting deferred shares of HK\$1.00 each in the share capital of Coils Electronic Co., Limited.
- In respect of the 6,000,000 non-voting deferred shares of HK\$1.00 each held by Ka Yan China Development (Holding) Company Limited and the remaining 500,000 non-voting deferred shares of HK\$1.00 each held by Ms. Law Ching Yee in Coils Electronic Co., Limited, representing approximately 42.86% and approximately 3.57% respectively of the 14,000,000 non-voting deferred shares of HK\$1.00 each in the share capital of Coils Electronic Co., Limited, Mr. Lam Wai Chun was deemed to be interested in all those shares under the SDI Ordinance by virtue of, in the case of Ka Yan China Development (Holding) Company Limited, the reasons set out in Note (a)1 above and, in the case of Ms. Law Ching Yee, the fact that Ms. Law Ching Yee is the spouse of Mr. Lam Wai Chun.
- Holders of the non-voting deferred shares have no voting rights, are not entitled to dividends unless the net profit of Coils Electronic Co., Limited exceeds HK\$100,000,000,000,000, and are not entitled to any distributions upon winding up unless a sum of HK\$100,000,000,000,000 has been distributed to the holders of ordinary shares.

Save as disclosed above, as at 31st January, 2002, none of the Directors of the Company or any of their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) had any interests in the securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.