MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Review

The business environment of electronic manufacturing industry reverted to its stable state in the first quarter of the financial year 2003/2004 under review. Although market competition was as fierce as it was, the demand for and prices of electronic components were comparatively stable. The Group's profit attributable to shareholders for the three months ended 31st July 2003 was HK$4,595,000 (2002: HK$3,199,000), representing an increase of 43.6% as compared with the corresponding period last year. Turnover for the period was HK$110,293,000 (2002: HK$115,364,000), representing a drop of 4.4% as compared with the corresponding period last year. The Group's overall gross profit and gross profit margin for the period both increased to HK$29,237,000 and 26.5% (2002: HK$26,732,000 and 23.2%), respectively.

The Group has adhered to the operating direction established in the last financial year. During the period, the Group has shrunk certain low-profit-margin trading business. Meanwhile, the Group strived to develop its core coils manufacturing business. The overall results have rebounded, demonstrating the Group's competitive edges in its core manufacturing business established during the past years and the fruit resulting from its concentration on principal business.

	Turnover Three months ended 31st July		Gross profit/(loss) Three months ended 31st July	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Coils manufacturing	97,191	92,171	28,065	24,488
Capacitors manufacturing	2,659	8,803	(739)	1,137
Electronic components trading	8,600	14,390	785	1,107
Information technology services	1,843	–	1,126	–
	110,293	115,364	29,237	26,732

The above was written by:

Tang Fung Kwan
Deputy Chairman and Managing Director

Huang Kong
Deputy Managing Director

Manufacturing Segment

The Group's core business, the manufacturing segment, recorded a growth in both gross profit and gross profit margin for the three months ended 31st July 2003, which amounted to HK$27,326,000 and 27.4% (2002: HK$25,625,000 and 25.4%), respectively. Turnover, however, was down 1.1% from the same period last year. During the period, the Group has been active in reshuffling certain capacitors customers with relatively long payment terms, resulting in the drop in turnover of capacitors. With the speeding up of the restructuring exercise, there will be gradual improvement in the capacitors business.

The Group has been actively investing in vertical integration and production automation over the years, all with a view to cultivating a long-term competitive advantage for the Group's manufacturing segment. During the period, the Group has been fully committed to the development of its core coils business. Turnover of coils for the three months ended 31st July 2003 reached HK$97,191,000 (2002: HK$92,171,000), with a gross profit and gross profit margin of HK$28,065,000 and 28.9% (2002: HK$24,488,000 and 26.6%), respectively. The rise in gross profit margin was mainly attributable to the improvement in production efficiency and the growth in sales volume of power supply coils. During the first quarter of the current year, turnover to customers who manufacture power supply products has climbed by 256.4% to HK$13,023,000 (2002: HK$3,654,000). Therefore, the Group's active investment in power supply coils and manganese-zinc ferrite in recent years can reap the fruit of enhancement in production efficiency through the expansion of production.

The Group's products are mainly sold to Hong Kong, Mainland China, Taiwan and Singapore, etc. With the establishment of more and more production bases and businesses in Mainland China by foreign electronic and electrical manufacturers, most of the foreign manufacturers have been looking for local purchases and delivery. Being a Mainland China based manufacturer for over 20 years, the Group is capitalising on this opportunity firmly. For the three months ended 31st July 2003, the Group's turnover in Mainland China reached HK$13,202,000 (2002: HK$8,427,000), growing substantially by 56.7%. The Group looks forward to a sustained high-speed growth in its business in Mainland China for the future. On the other hand, the Group's business in Europe, where the Group has long been devoted in its development, achieved a growth rate of 36.2% to reach HK$6,345,000 (2002: HK$4,659,000). The rise in turnover was mainly due to the increasingly stringent electromagnetic environmental standards in many European countries. The Group's actively developed anti-electromagnetic interference filters in recent years have become indispensable components in electrical products applied in Europe.

The above was written by:
Tang Fung Kwan
Deputy Chairman and Managing Director
Law Hoo Shan
Executive Director

Trading Segment

The Group continued the strategy mapped out last year, curtailing low-return trading operations step by step and putting resources in projects with higher return. For the three months ended 31st July 2003, turnover of the Group's electronic components trading segment amounted to HK$8,600,000 (2002: HK$14,390,000), down 40.2% from the corresponding period last year and accounting for 7.8% (2002: 12.5%) of the Group's turnover. The gross profit margin was 9.1% (2002: 7.7%). Turnover for the period decreased while gross profit margin increased slightly, reflecting the Group's efforts on restructuring the trading segment.

The above was written by:
Lam Wing Kin, Sunny
Executive Director

Information Technology Segment

The Group's information technology segment recorded a turnover of HK$1,843,000 for the three months ended 31st July 2003, accounting for 1.7% of the Group's turnover and with a gross profit and operating loss of HK$1,126,000 and HK$391,000, respectively. The Group's 51% owned Sun-iOMS Technology Holdings Limited ("Sun-iOMS") recorded a consolidated operating profit of HK$9,000, reflecting Sun-iOMS' achievement of a breakeven point.

The above was written by:
Huang Kong
Deputy Managing Director

Financial Review

As at 31st July 2003, the Group's aggregate banking facilities from banks and financial institutions amounted to HK$443,122,000 (as at 30th April 2003: HK$539,426,000), of which HK$114,648,000 (as at 30th April 2003: HK$222,320,000) remained unutilised. The Group had cash and bank deposits of HK$48,038,000 (as at 30th April 2003: HK$44,240,000), denominated mainly in Hong Kong dollars, United States dollars, Renminbi, Japanese yen, Singapore dollars and New Taiwan dollars. The Group is required to meet certain restrictive financial covenants with the major financing banks.

	Financial covenants with major banks	As at 31st July 2003	Compliance with financial covenants
Net tangible assets	Above HK$290,000,000	HK$302,398,000	Complied
Current ratio	Above 0.70	0.92	Complied
Interest coverage ratio	Above 3.50 times	4.77 times	Complied
Net gearing ratio (1)*	Below 1.05	0.98	Complied
Net gearing ratio (2)#	Below 0.85	0.85	Complied

* The ratio of (total borrowings plus bills payable and contingent liabilities less total cash and bank deposits) over (net tangible assets less proposed final dividends)

\# The ratio of (total borrowings plus bills payable less total cash and bank deposits and investment) over (net tangible assets less proposed final dividends)

The Group's net cash inflow for the three months ended 31st July 2003 was HK$30,401,000 (three months ended 31st July 2002: HK$654,000) with a net cash inflow from operating activities of HK$18,511,000 (three months ended 31st July 2002: HK$2,986,000) and a net cash inflow from financing activities of HK$26,211,000 (three months ended 31st July 2002: net cash outflow of HK$1,260,000). This was primarily attributable to the new long-term bank loans of HK$165,000,000 (three months ended 31st July 2002: Nil) during the period, which helped improve the Group's debt structure and cash flow.

The above was written by:
Cheung Man Ho
Financial Controller

Future Plans and Prospects

The Group planned in January 2003 to set up a factory in Nanjing to supply ready-to-press ferrite powder to Nanjing Fei Jin Magnetic Products Co., Ltd., a subsidiary of LG.Philips Displays, for its production of "deflection yoke", which is a critical component in display tubes. The total investment for the project is HK$23,000,000, and as at 31st July 2003, the Group has invested HK$15,800,000 in the project for Nanjing.

The project is going on smoothly, and is expected to run a trial production in October 2003 and to go into operation by the end of the year. The project will extend the technological range of the Group's ferrite production, and will boost the sales of ferrite as well.

The above was written by:
Huang Kong
Deputy Managing Director
Lam Wing Kin, Sunny
Executive Director