

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Business Review

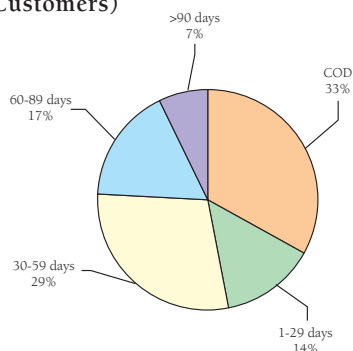
Looking back on the first six months of the financial year 2003/2004, the business environment of electronic manufacturing industry has improved with the recovery of global economy.

During the period under review, the Group's profit attributable to shareholders was HK\$8,543,000 (2002: HK\$5,294,000). Turnover for the period was HK\$235,550,000 (2002: HK\$247,959,000), down 5.0% as compared with the corresponding period last year. The reason for the decrease in turnover is that the Group continues to trim the electronic components trading business with lower profit margin. During the period under review, the turnover of electronic components trading segment was HK\$19,342,000 (2002: HK\$29,813,000), representing a marked drop of 35.1% as compared with the corresponding period last year. On the other hand, the turnover of coils manufacturing segment, the core business, rose 5.7% to HK\$206,871,000 (2002: HK\$195,733,000).

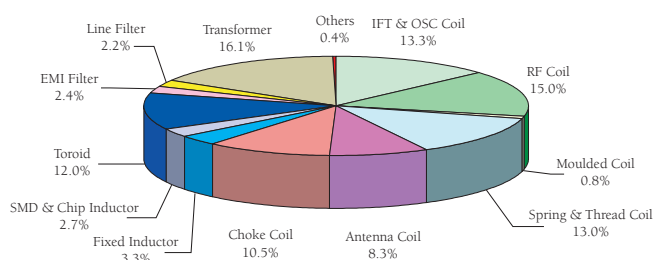
The current turnover distribution of the Group's operations reflects that the Group is actively amassing its resources to explore the core coils business. The Group's overall gross profit and gross profit margin for the period recorded an increase to HK\$58,463,000 (2002: HK\$58,456,000) and 24.8% (2002: 23.6%), respectively. The Group's overall profit performance reflects the Group's competitive edges in coils manufacturing and demonstrates that the Group should continue to implement its corporate policy of intensive development of its core manufacturing business.

	Turnover		Gross profit/(loss)	
	Six months ended		Six months ended	
	31st October		31st October	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Coils manufacturing	206,871	195,733	57,434	54,315
Capacitors manufacturing	6,847	22,413	(1,573)	2,268
Electronic components trading	19,342	29,813	1,503	1,873
Information technology services	2,490	–	1,099	–
	<b>235,550</b>	<b>247,959</b>	<b>58,463</b>	<b>58,456</b>

Breakdown of Credit Terms as at 31st October 2003 (in term of Customers)



Distribution of New Specification – by Product Type for the six months ended 31st October 2003





### Manufacturing Segment

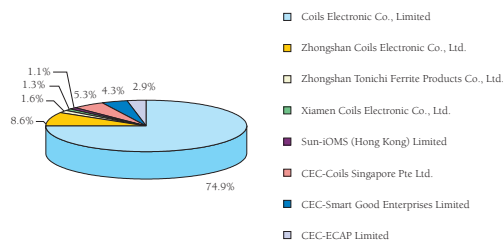
The Group's core manufacturing business is the manufacture of coils. The Group has been focusing on developing its coils manufacturing business during the period, such that the turnover of coils manufacturing segment for the six months ended 31st October 2003 recorded a rise of 5.7% as compared with the corresponding period last year. The gross profit of this business was HK\$57,434,000 (2002: HK\$54,315,000), with an increase over the corresponding period last year as well, while the gross profit margin maintained at a similar level of 27.8% (2002: 27.7%). As for capacitors manufacturing segment, the Group has been active in reshuffling certain capacitors customers with relatively long payment term, resulting in a drop in its turnover. On the other hand, the Group has been keen on promoting capacitors to quality customers and it is expected that there will be a gradual improvement in the capacitors business in the future.

The application of the coils produced by the Group mainly comprises audio-visual, electrical home appliances, toys, computers and office automation equipment, lighting facilities, telecommunication, automobiles, and other electronic and electrical products. For the six months ended 31st October 2003, the Group's sales to power-supply product manufacturers accounted for 15.0% (2002: 7.2%) of the Group's turnover. This indicates that the power-supply coils and manganese-zinc ferrite, which have been actively invested and developed by the Group in recent years, have become one of the Group's flagship products, and that the Group's investment in power-supply coils and manganese-zinc ferrite is gradually paying off. As the demand for switching power supply units and anti-electromagnetic interference filters is going up, the Group expects that the sales of products in this segment will increase accordingly.

During the period, the Group has been committed to developing the European market and to securing customers in Europe. Sales to European region amounted to HK\$15,338,000 (2002: HK\$12,486,000) during the period under review. Meantime, as many electronic and electrical appliance manufacturers from all over the world have been keeping on establishing factories and furnishing their purchases in Mainland China, the Group, capitalising on the business opportunities emerged from this trend, succeeded in securing a number of customers from Europe and the USA and becomes one of their main suppliers in Mainland China. As a result, the Group's sales within Mainland China for the period soared 57.7% to HK\$31,959,000 (2002: HK\$20,264,000) as compared with the corresponding period last year.

Copper wires, plastics and various metal oxides (such as iron, zinc, manganese, nickel, copper and cobalt, etc.) are the principal materials purchased for the Group's core business. Since the metal prices in the global market have been rising throughout 2003 and exerting pressure on the material costs of the core business, the Group will closely monitor the price fluctuation in metal markets.

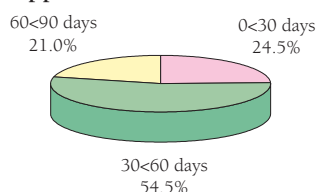
**Sales Contribution by Major Subsidiaries for the six months ended 31st October 2003 (Total Turnover: HK\$235,550,000)**



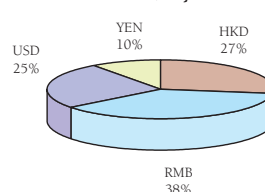
### Trading Segment

Carrying on the corporate policy formulated by the Group last year, which includes amassing resources to develop the core manufacturing business, curtailing or restructuring under-performing projects, the turnover of electronic components trading segment with lower profit margin dropped significantly to HK\$19,342,000 (2002: HK\$29,813,000) as compared with the corresponding period last year. The gross profit fell with the turnover to HK\$1,503,000 (2002: HK\$1,873,000), but the gross profit margin rose to 7.8% (2002: 6.3%) for the same period. This indicates that the Group is actively embarking on the restructure of the trading segment, and that business with lower profit margin will be further retrenched with a view to alleviating the credit exposure and cost of capital associated with non-core business.

#### Distribution of Payment Terms Agreed with Suppliers as at 31st October 2003



#### Purchase Amount for the six months ended 31st October 2003, by Settlement Currency



### Information Technology Segment

During the period under review, the Group's information technology segment has not performed up to the mark and recorded a turnover of HK\$2,490,000 (2002: Nil) with a gross profit of HK\$1,099,000 (2002: Nil) for the period. Here and now, Sun-iOMS (Hong Kong) Limited ("Sun-iOMS", a 51% owned subsidiary of the Group) recorded an operating loss of HK\$767,000 for the period, which was mainly attributable to the slow-down of sales in September and October. Currently, Sun-iOMS is actively soliciting more sales orders so as to catch up in the short run. Besides, the project regarding the "Corporate Process Management System" related product is being actively developed by Chongqing CEC-Technology Limited (a wholly-owned subsidiary of the Group) during the period, which is about to unfold its sales and marketing with projected completion two quarters later.

### Financial Review

As at 31st October 2003, the Group's aggregate banking facilities from banks amounted to HK\$430,621,000 (as at 30th April 2003: HK\$539,426,000), of which HK\$87,917,000 (as at 30th April 2003: HK\$222,320,000) remained unutilised. Cash and bank deposits were HK\$49,251,000 (as at 30th April 2003: HK\$44,240,000), denominated mainly in Hong Kong dollars, United States dollars, Renminbi, Singapore dollars and New Taiwan dollars. The Group is required to meet certain restrictive financial covenants with the major banks.

	Financial covenants with major banks	As at 31st October 2003	Compliance with financial covenants
Net tangible assets	Above HK\$290,000,000	HK\$305,972,000	Complied
Current ratio	Above 0.70	0.87	Complied
Interest coverage ratio	Above 3.50 times	5.34 times	Complied
Net gearing ratio (1)*	Below 1.05	0.99	Complied
Net gearing ratio (2)#	Below 0.85	0.83	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)

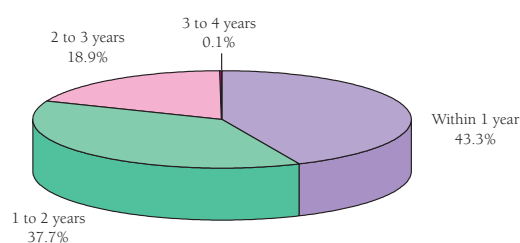
# The ratio of (total borrowings plus bills payable less total cash and bank deposits and investment) over (net tangible assets plus minority interests less proposed final dividends)

## Cash flow summary

	Six months ended 31st October		Change
	2003 HK\$'000	2002 HK\$'000	
Cash inflow from operating activities	44,164	9,685	↑
Cash outflow from investing activities	(31,273)	(5,260)	
Cash inflow/(outflow) from financing activities	11,270	(5,314)	↑
Cash and cash equivalents, end of period	15,159	(9,229)	

The Group's net cash inflow for the six months ended 31st October 2003 was HK\$24,430,000 (2002: HK\$1,554,000). As at 31st October 2003, cash and cash equivalents amounted to HK\$15,159,000 (as at 31st October 2002: minus HK\$9,229,000). The increase in net cash inflow was mainly attributable to the net cash inflow from operating activities of HK\$44,164,000 (2002: HK\$9,685,000). The net cash outflow from investing activities was HK\$31,273,000 (2002: net cash outflow of HK\$5,260,000). This was primarily attributable to the capital expenditure for the period of HK\$40,010,000 (2002: HK\$15,114,000), mostly resulting from the purchase of equipment for the investment in Nanjing Project and expansion of coils manufacturing segment. The net cash inflow from financing activities was HK\$11,270,000 (2002: net cash outflow of HK\$5,314,000), mainly attributable to the new long-term bank loan of HK\$165,000,000 during the period, which had positive impact on the Group's debt structure and cash flow.

## Maturity of Finance Lease & Term Loan as at 31st October 2003 (Total: HK\$201,414,000)

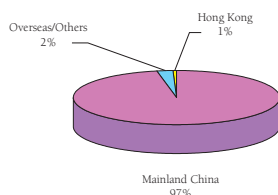


## The Group's Human Resources Distribution

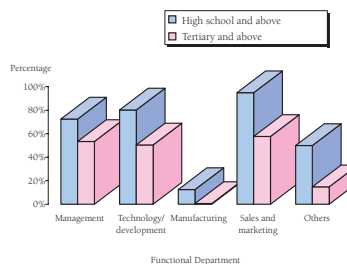
Report on human resources as at 31st October 2003:

<b>Total number</b>	5,993	<b>Male:</b>	24.1%	<b>Female:</b>	75.9%
<b>Functional distribution</b>	<b>Management</b>	<b>Technology/development</b>	<b>Manufacturing</b>	<b>Sales and marketing</b>	<b>Others</b>
	3.2%	2.2%	Workers: 79.6%	1.3%	7.2%
			Supervisors: 6.5%		
<b>Qualification</b>	<b>Management</b>	<b>Technology/development</b>	<b>Manufacturing</b>	<b>Sales and marketing</b>	<b>Others</b>
High school and above	72.5%	80.2%	12.4%	94.9%	49.9%
Tertiary and above	53.4%	50.4%	0.6%	57.7%	14.8%
<b>Age</b>	<b>25 or below</b>	<b>26 – 35</b>	<b>36 – 50</b>	<b>51 or above</b>	
	61.2%	31.2%	6.6%	1.0%	
<b>Nationality</b>	<b>Hong Kong</b>	<b>Mainland China</b>	<b>Overseas/others</b>		
	2.4%	97.0%	0.6%		

## Distribution of Employees' Nationalities as at 31st October 2003



## Proportion of Employees with Educational Qualification as at 31st October 2003



## Future Plans and Prospects

### *The Nanjing Project*

The ready-to-press ferrite powder production plan drawn up by Nanjing Guo Zhong Magnetic Material Co., Ltd. (“Nanjing Guo Zhong”), a wholly-owned subsidiary of the Group, at the beginning of 2003 is now progressing as originally scheduled. According to the sales and purchase agreement entered into between the Group and Nanjing Fei Jin Magnetic Products Co., Ltd. (“Nanjing Fei Jin”), a subsidiary of LG.Philips Displays, Nanjing Fei Jin will purchase from Nanjing Guo Zhong 80% of its demand for ferrite powder for the production of “deflection yoke”, which is a crucial component in display tubes.

All the plant infrastructure and production equipment installation were completed in October 2003. Based on the demand forecast prepared by Nanjing Fei Jin in October 2003, the purchase volume will be gradually increased from 70 tons for trial production in November 2003 to 472 tons in March 2004. The 70 tons delivered by Nanjing Guo Zhong to Nanjing Fei Jin have been checked and received in November 2003, and Nanjing Guo Zhong, while engaging in full production to cope with the demand of Nanjing Fei Jin, will reinforce its efforts on quality control and stability of product as well.

As at 31st October 2003, the Group has invested HK\$16,679,000 in the Nanjing Project, mainly for plants and production equipment, and it is expected that the total investment will be within HK\$23,000,000.

### *Carrying Through the “People-Oriented” Concept*

The Group has been placing an emphasis on human resources strategy as well as carrying through the “people-oriented” concept. It is because the Group believes that a company cannot prosper without abundant talents. During the period under review, the Group has implemented a human resources program, namely the “Executive Trainee Program”. The “Executive Trainee Program” aims to recruit graduates and professionals from the Pearl River Delta, the base of the Group’s core business, and have them worked and trained in the Group, playing a supportive role in the growth of the Group. In addition to new ideas and vitality that comes with the recruits, the program can also replenish the high rate of brain drain due to the high flow rate of population in the Pearl River Delta in recent years.

The first stage of the “Executive Trainee Program” has been launched during the period under review. Since the Group considers Hong Kong to be an important center of talents, with a rich supply of graduates from various universities in Hong Kong. The first stage of the program involves recruiting a number of outstanding graduates from Hong Kong and having them worked in the Group’s core business base in Zhongshan, where they will be put through practice and training covering production management, purchasing, sales, systems management and capital analysis, etc. Through the above arrangement, the graduates may acquire working experience in business and in manufacturing industry in Mainland China, thereby boost the Group’s business growth in Mainland China. For the period from the start of summer this financial year to 31st October 2003, the Group has recruited more than 20 university graduates from Hong Kong. The first stage of the “Executive Trainee Program” targets at recruiting a total of 60 graduates from universities in Hong Kong in the financial year.

The above was written by:

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### Distribution of Employees’ Age as at 31st October 2003

