

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Business Review

Reviewing the period for the nine months ended 31st January 2004, the Group has been carrying out the corporate strategy formulated last year, including the intensive development of the core manufacturing business, the trimming or restructure of under-performing projects, and the enhancement of the Group's overall operating efficiency. For the nine months ended 31st January 2004, the Group's turnover was HK\$346,945,000 (2003: HK\$341,184,000), up 1.7% as compared with the corresponding period last year. The increase in turnover was mainly contributed from the Group's core business – the coils manufacturing segment, the turnover of which for the period rose 9.5% as compared with the corresponding period last year. The turnover of low-profit-margin electronic components trading segment reduced by 23.3%, reflecting the Group's efforts in focusing its resources on the development of the core business.

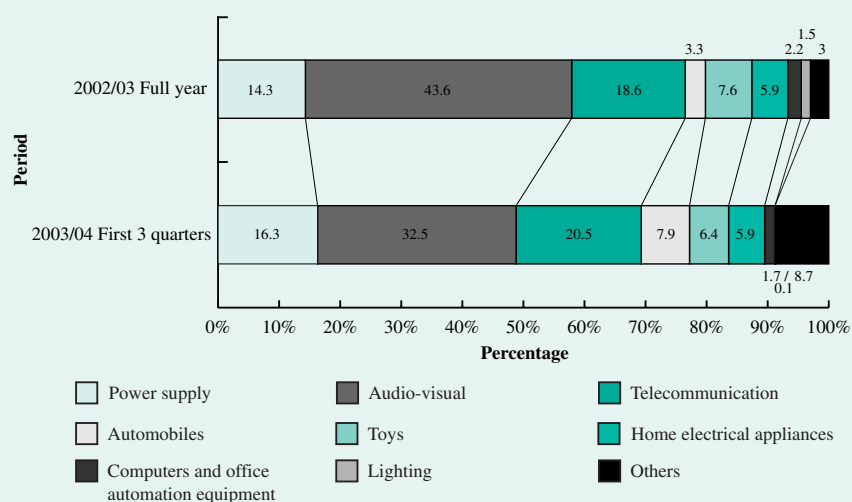
During the period under review, the Group recorded a gross profit of HK\$87,423,000 (2003: HK\$83,142,000), up 5.1% as compared with the same period last year. The overall gross profit margin was 25.2% (2003: 24.4%). Operating profit was HK\$25,895,000 (2003: HK\$20,289,000), up 27.6% as compared with the same period last year. Profit attributable to shareholders for the period amounted to 10,206,000 (2003: HK\$5,310,000), with a growth of 92.2%. The increases in operating profit and profit attributable to shareholders were mainly due to the Group's intensive development of its core business, the coils manufacturing segment, the turnover of which for the period accounted for 87.6% (2003: 81.4%) of the total turnover whilst the proportions for the turnover of the relative low-profit-margin capacitors manufacturing and electronic components trading segments to the total turnover decreased to 3.1% and 7.3%, respectively (2003: 9.0% and 9.7%). The improvement in the overall profit margin and profit growth indicates the effectiveness of the Group's strategy in focusing its resources on the development of the core business.

	Turnover		Gross profit/(loss)	
	Nine months ended 31st January		Nine months ended 31st January	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Coils manufacturing	303,859	277,568	86,432	78,028
Capacitors manufacturing	10,881	30,625	(2,166)	3,226
Electronic components trading	25,290	32,991	1,915	1,888
Information technology services	3,541	–	1,423	–
Ferrite powder manufacturing	3,374	–	(181)	–
	346,945	341,184	87,423	83,142

### Coils Manufacturing Segment

The Group dedicated its resources to develop the coils manufacturing business during the period. For the nine months ended 31st January 2004, the gross profit of the coils manufacturing segment yielded an increase of 10.8% as compared with the corresponding period last year up to HK\$86,432,000 (2003: HK\$78,028,000), with a gross profit margin of 28.4% (2003: 28.1%). Turnover of this segment also rose by 9.5%, to HK\$303,859,000 (2003: HK\$277,568,000) as compared with the corresponding period last year, which was mainly attributable to the increasing demand from power-supply product manufacturers. This rendered the sales of the Group's highly promoted power-supply coils, including switching-mode transformers and line filters, soared. The Group's other coils products also maintained a steady growth. Below is a chart that indicates the distribution of customers' industries for the coils manufacturing segment:

Distribution of Turnover by Customer's Industries



In respect of sales market, the Group's targeted European and Mainland China markets recorded a significant growth of 32.4% and 82.7%, respectively during the period under review. Through the proactive development on power-supply coils and anti-electromagnetic interference filters in European market in the recent years, the Group succeeded in securing a certain number of customers in Europe. The enhanced customer recognition in the Group's product quality, pricing and services led to a remarkable increase in turnover from Europe. Meanwhile, the Group also recorded an increase of more than 80% in turnover from Mainland China, primarily because more and more electronic and electrical appliance manufacturers from all over the world have been setting up their manufacturing bases and furnishing their purchases in Mainland China, therefore benefiting the Group which has a core and well-established presence in that country. In respect of the customers in Mainland China, the Group continues to adopt a prudent and cautious approach in market development. During the period under review, the world-wide metal prices have been continuously increasing. Prices of copper and metal oxides had already accumulated a single-digit and a double-digit growth, respectively. However, the Group's on-going improvement in production technology and materials application resulted in a reduction of material costs. In addition, as the Group had signed up long-term purchasing forecasts with major suppliers, a relative stable supply of raw materials can be maintained. The Group's shrewd ability to control cost of raw materials for the period was reflected in the increase of profit margin of the coils manufacturing segment. Given the volatility of prices of raw materials, the Group will continue to closely monitor the price fluctuation in the international metal markets.

*Capacitors Manufacturing Segment*

Turnover for the capacitors manufacturing segment for the period was HK\$10,881,000 (2003: HK\$30,625,000), reduced significantly by 64.5% as compared with the corresponding period last year. The decrease in turnover was directly related to the Group's restructure of the clientele of capacitors manufacturing segment and revised the credit terms granted to certain customers with long credit period for enhancing the Group's cash-flow liquidity and alleviating credit risk.

*Electronic Components Trading Segment*

The Group continued to shrink the electronic components trading segment. For the nine months ended 31st January 2004, the turnover for the Group's electronic components trading segment was HK\$25,290,000 (2003: HK\$32,991,000), reduced by 23.3% as compared with the corresponding period last year. The Group expects to substantially phase out the electronic components trading segment in the next quarter, and upon completion, the Group will be able to further focus its resources on the development of the core business.

*Information Technology Segment*

During the period under review, the Group's information technology segment recorded a turnover of HK\$3,541,000 (2003: Nil), with a gross profit of HK\$1,423,000 (2003: Nil). In line with the Group's dedication to develop its core business, the Group decided to scale down the existing business of the information technology segment and cease to make any further new investment in the information technology business. The on-going development of the Group's incumbent operating system will continue as scheduled to complement the Group's core business development.

*Ferrite Powder Manufacturing*

Following the completion of the Nanjing Project's plant infrastructure and production equipment installation in October 2003, Nanjing Guo Zhong Magnetic Material Co., Ltd. ("Nanjing Guo Zhong"), a wholly-owned subsidiary of the Group, also completed the pilot production and equipment tuning in the current quarter. Product specifications had been sent to the Group's joint venture partner LG.Philips Displays' subsidiary, Nanjing Fei Jin Magnetic Products Co., Ltd. ("Nanjing Fei Jin"). It was the first time for Nanjing Guo Zhong to record a turnover of HK\$3,374,000 (2003: Nil) in this quarter. Nanjing Guo Zhong is currently working in matching equipment and improving the manufacturing workflow in order to increase the production output and efficiency, and is also actively teaming up with Nanjing Fei Jin to work out the formulae of the relative low-cost raw materials and to source the relevant suppliers of such materials.

### Financial Review

As at 31st January 2004, the Group's aggregate banking facilities from banks amounted to HK\$425,981,000 (as at 30th April 2003: HK\$539,426,000), of which HK\$106,047,000 (as at 30th April 2003: HK\$222,320,000) remained unutilised. Cash and bank deposits were HK\$50,693,000 (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 January 2004	Compliance with financial covenants
Net tangible assets	Above HK\$290,000,000	HK\$308,524,000	Complied
Current ratio	Above 0.70	0.82	Complied
Interest coverage ratio	Above 3.50 times	5.25 times	Complied
Net gearing ratio (1)*	Below 1.05	0.91	Complied
Net gearing ratio (2)#	Below 0.85	0.78	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 dividend)

# 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 dividend)

### Cash Flow Summary

	Nine months ended 31st January		Change
	2004 HK\$'000	2003 HK\$'000	
Cash inflow from operating activities	74,817	12,536	↑
Cash (outflow)/inflow from investing activities	(41,733)	3,915	↓
Cash outflow from financing activities	(7,818)	(25,624)	↑
Cash and cash equivalents, end of period	16,113	(17,655)	↑

The Group's net cash inflow for the nine months ended 31st January 2004 was HK\$25,384,000 (2003: outflow of HK\$6,872,000). As at 31st January 2004, cash and cash equivalents amounted to HK\$16,113,000 (2003: minus HK\$17,655,000). The increase in net cash inflow was mainly attributable to the net cash inflow from operating activities of HK\$74,817,000 (2003: HK\$12,536,000) during the period. The net cash outflow from investing activities was HK\$41,733,000 (2003: inflow of HK\$3,915,000). This was primarily due to the additions of the property, plant and equipment amounting to HK\$48,225,000 for the period (2003: HK\$6,431,000), which included the purchase of plant and equipment in connection with the major investment in Nanjing Project. The net cash outflow from financing activities was HK\$7,818,000 (2003: HK\$25,624,000), mainly attributable to a new long-term bank loan of HK\$165,000,000 obtained in May 2003, which had positive impact on the Group's debt structure and cash flow. Besides, the Group also continued to repay certain balance of bank loans, reducing the net gearing ratios (1) and (2) to 0.91 and 0.78, respectively (2003: 1.00 and 0.89).

### Corporate Governance

In line with the requirements of corporate governance, the Group has enhanced the transparency, efficiency and effectiveness of risk management and internal control with a view to protecting the interests of investors, creditors and shareholders. Accordingly, the Group newly established an Internal Audit Department during the current quarter. The Internal Audit Department mainly focuses on scrutinizing and reviewing the Group's internal operation and financial control systems. Besides, it also performs independent review on the consolidated financial statements of each quarter (including the current quarter) and provides the corresponding recommendations on identified issues.

### The Group's Human Resources Distribution

Details of human resources as at 31st January 2004 are as follows:

<b>Total number</b>	6,084	<b>Male:</b>	27.2%	<b>Female:</b>	72.8%
<b>Functional distribution</b>	<b>Management</b>	<b>Technology/development</b>	<b>Manufacturing</b>	<b>Sales and marketing</b>	<b>Others</b>
	3.0%	1.5%	Workers: 79.2% Supervisors: 6.4%	1.1%	8.8%
<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	71.1%	74.5%	11.6%	89.4%	47.9%
Tertiary and above	53.9%	36.2%	0.6%	53.0%	5.5%
<b>Age</b>	<b>25 or below</b>	<b>26-35</b>	<b>36-50</b>	<b>51 or above</b>	
	58.4%	32.6%	8.1%	0.9%	
<b>Nationality</b>	<b>Hong Kong</b>	<b>Mainland China</b>	<b>Overseas/others</b>		
	1.8%	97.6%	0.6%		

### Future Plans and Prospects

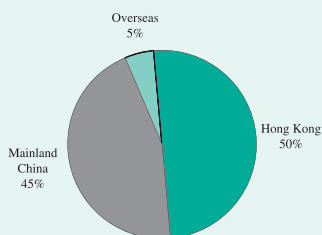
#### *Re-organization to the China-focused Operating Model*

Following the public listing of the Group, certain organizational structure and day-to-day operations that had been relocated to Mainland China were re-constructed in Hong Kong. This had an adverse effect on the synchronization of the Group's daily operation, thus diminishing operating efficiency while the expansion of Hong Kong organizational structure had also resulted in an increase in overall operating overheads. After thorough consideration, the Directors believe that the Group's most successful strength is its comprehensive management and operating base established in Mainland China. In view of this, the transfer of certain work procedures back to Hong Kong was a decision putting the cart before the horse. To rectify the mistake, the Directors have decided to return to use the full China-focused operating model as adopted by the Group before its public listing in 1999 by gradually stream-lining the operating structure in Hong Kong and transferring the relevant operations back to the headquarter in Mainland China.

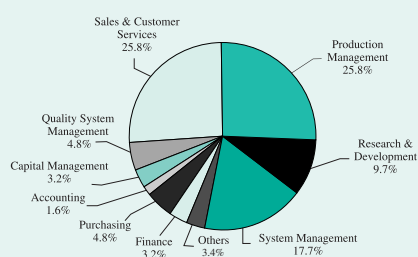
*Executive Trainee Program*

The “Executive Trainee Program” represents a crucial investment in human resources to the Group. The “Executive Trainee Program” aims at training and incubating quality people, bringing in new ideas and young talents, and developing a new generation of the management to support the Group’s fast-growing business. The “Executive Trainee Program” comprises “Hong Kong Executive Trainees”, who graduated from universities in Hong Kong, and also “Mainland Executive Trainees”, who are talents recruited from Mainland China. Since the launch of the Program in November 2003, there are 64 executive trainees employed under the program, of which 36 are “Hong Kong Executive Trainees”, and 28 are “Mainland Executive Trainees”. Up to 31st January 2004, the Group had invested resources with a total amount of HK\$1,263,000 into the “Executive Trainee Program” that spans across different departments in the core business, including production management, purchasing, sales, system management, capital analysis, research and development, and quality system management. The average age of the members of the “Executive Trainees Program” is about 25 years old and this young management team will further consolidate the foundation of the Group. The effectiveness of this crucial training program has a significant impact to the Group’s future development. The Group will, therefore, continue to report the latest progress of this “Executive Trainee Program” every quarter.

**Distribution of Trainees of “Executive Trainee Program” by Location of Universities Graduated as at 31st January 2004**



**Distribution of Trainees of “Executive Trainee Programme” by Functional Department as at 31st January 2004**



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*Capital Management Department*

**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 2004.