Financial and Operations Review

The following sets out the financial highlights for the year ended 31st March, 2004, with the comparative figures for the corresponding period in 2003.

	2004 HK$'million	2003 HK$'million	Change HK$'million	Change %
Turnover	338.4	320.8	17.6	5%
Earnings before interest, taxation, depreciation and amortisation	25.6	21.9	3.7	17%
Depreciation and amortisation of tangible and intangible assets	(11.8)	(18.4)	6.6	36%
Net interest (expenses)/income	(0.4)	0.2	(0.6)	300%
Adjusted operating profit	13.4	3.7	9.7	262%
Share of results of associates and impairment losses recognised in respect of interest in associates	—	(1.5)	1.5	100%
Other non-operating items:				
- Compensation to directors	(5.2)	—	(5.2)	NA
- Impairment on property	(8.3)	—	(8.3)	NA
- Provision for restructuring	6.8	(18.3)	25.1	137%
	(6.7)	(18.3)	11.6	63%
Profit/(Loss) before taxation	6.7	(16.1)	22.8	142%
Taxation				
- Underprovision in prior years	(11.4)	(0.8)	(10.6)	1,325%
- Tax penalty	(7.0)	—	(7.0)	NA
- Tax provision in current year	(2.0)	(0.9)	(1.1)	122%
	(20.4)	(1.7)	(18.7)	1,100%
Net loss for the year	(13.7)	(17.8)	4.1	23%
Dividends	11.1	44.6	(33.5)	75%

Group Overview

The Group recorded a moderate increase in turnover during the year by approximately 5% to HK$338.4 million (2003: HK$320.8 million).

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") for the year ended 31st March, 2004 was HK$25.6 million, an impressive growth of 17% over last year.

Adjusted operating profit, which represented profit before the provision for current year's taxation and prior years' taxation (aggregate of HK$20.4 million), compensation payment (HK$5.2 million) and, impairment on property (HK$8.3 million), setting off the reversal of provision for restructuring (HK$6.8 million), increased from HK$3.7 million to HK$13.4 million, up by 262%.

The increase in EBITDA for the year was mainly attributable to the increased orders from certain major customers, the continued stringent cost control measures and diligent adherence to financial budgets adopted by the Group, even though the business environment was adversely affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") epidemic and the US-Iraq war in the early part of the year under review.

In May 2003, a tax audit was commenced by the Hong Kong Inland Revenue Department (the "IRD") on certain subsidiaries of the Company in respect of the years of assessment from 1997/98 to 2001/02. During the year, the Company and the IRD reached a mutual settlement agreement in respect of the additional tax liabilities of the Group, without the directors admitting any liability. On 19th November, 2003, additional assessments of HK$11.5 million for the years of assessment from 1997/98 to 2001/02 together with a compound tax penalty of HK$7.0 million were issued by the IRD to the Group. The additional taxation charge and the tax penalty will be settled, after deducting the provisional tax already paid amounting to HK$6.8 million, in twelve monthly installments starting from 31st December, 2003. As at the date of this report, the Group has paid approximately HK$8.0 million towards the aforesaid tax liabilities of approximately HK$12.0 million (outstanding balance as at the date of this report of HK$4.0 million).

As at 31st March, 2004, the Group had a bank and cash balance of HK$46.0 million with certain trade debt amounting to HK$26.2 million (a net cash balance of HK$19.8 million), while the Group's net assets value was HK$154.9 million, with a relatively healthy current ratio of 223% and a gearing ratio of nil balance (ratio of net bank debt to net assets value). The Group has adequate liquidity to meet its expected working capital requirements.

Busines Review and Prospects

Voltage Converter, Coils, and Components and Rechargeable Battery Business Segments

During the year under review, the business environment relating to voltage converter, coils, and components and rechargeable battery segments was generally affected by the following factors:

- Customers' pricing pressure;
- Change in the ordering pattern of customers;
- Increase in materials costs; and
- Economic uncertainty from the outbreak of SARS and US-Iraq war.

The financial performance of voltage converter, coils and components and of the rechargeable battery segments were slightly improved in the second half of the year under review despite the tough environment in which the industries operate.

We are progressively improving our competitiveness in the field of linear-mode power supply and switch-mode power supply products in response to the changing trend in product demand in the electronics and the telecommunications industry. We remain optimistic that we can effectively compete with the main suppliers of power supply products, both for the high-end and the low-end market segments for the present.

Expansion of our manufacturing scope to OEM manufacturing of electrical or electronic home and personal appliances and increasing the sales volume of our power-tools products, chargers and related products (i.e. components, tooling and finished products) are also progressing positively.

Year 2003/2004 was a transformation year for the Group. We restructured operations, expanded services and focused on streamlining our manufacturing capabilities in order to penetrate more directly into the core EMS (electronic/electrical manufacturing services) market.

The EMS industry includes hundreds of companies in Mainland China and is highly competitive. We compete with different companies on the basis of the type of services provided as prospective customers also evaluate the completeness of our manufacturing capabilities which ideally, are intended to complement their internal operations. The global trend towards outsourcing continue to allow EMS providers to grow. While the long term outlook for the industry is good, it is dependent on world economic trends which, during the year under review, have been affected by rapidly rising raw materials prices.

Our strategy is to provide customers a "one-stop shop". We continue to strengthen our management team and to build our expertise in tooling, molding, plastic injection and coil winding. Our focus is on rebuilding the profitability of the business through a series of important measures, some of which have already been started and have helped the Group to improve its financial performance. They include:

- Strengthening the sales effort and opening up new opportunities for growth;
- Expanding the customer base, maintaining a close working relationship with existing customers and being highly responsive to customers' requirements throughout the design, manufacturing and distribution process;
- Making considerable efforts to reduce costs and streamline operations; and
- Continuing to diversify product and services sector.

Your management is confident that such measures and controls will continue to help the Group to grow.

The Year Ahead

- Barring unforeseen circumstances, we expect to produce a greater volume of sales leading to higher revenues and profitability.
- We will continue to move from being an OEM of linear adapters to being a provider of electronic/electrical manufacturing services, (EMS), with the objective of widening our product range and customer base.
- To succeed in a competitive environment, your management is focusing on improving our operational efficiencies and financial control measures while investing prudently in R&D production technology to remain competitive in the long term.
- We are confident that our Group will enter a new era of growth when the momentum of recovery of the world economy is in full swing.

Liquidity and Capital Resources

The net cash (debt) position as at 31st March, 2004 and corresponding gearing ratio are shown as follows:-

	2004
	HK$' million
Cash	46.0
Less: trade debt	(26.2)
Net cash position	19.8
Shareholders' funds	154.9
Trade debt to shareholders' funds	16.9%
Net debt to shareholders' funds	—

The Group follows a policy of prudence in managing its cash balance, and maintains a high level of liquidity to ensure the Group is well placed to take advantage of growth opportunities for the business. As at 31st March, 2004, cash and bank balances amounted to HK$46.0 million with certain trade debt amounting to HK$26.2 million (net cash of HK$19.8 million), while the Group's net asset value as at 31st March, 2004 was HK$154.9 million.

The working capital position of the Group remains healthy. As at 31st March, 2004, the liquidity ratio (ratio of current assets to current liabilities) was 223%. (2003: 355%) and a gearing ratio of nil balance (ratio of net bank debt to net assets value).

It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure. At this stage, however, with continuing strong cash flows, there is no immediate requirement for significant debt finance. Management is comfortable that existing financial resources will be sufficient for working capital and future expansion plans. Should other opportunities arise requiring additional funding, management also believes that the Group is in a good position to obtain financing on favorable terms.

Cash Flow from Operating Activities

The Group's main source of liquidity continued to be the net cash from operating activities. With the continuous implementation of prudent cash control measures, cash generated from operating activities was a positive of HK$3.2 million, though the Group reported a net loss for the year of HK$13.7 million. The reconciliation of profit before taxation to net cash inflow from operating activities is shown as follows:–

	2004 HK$' million
Profit before taxation	6.7
Impairment losses recognized in respect of property, plant & equipment	8.3
Depreciation, amortisation and gain on disposal of fixed assets	10.9
Change in working capital	(23.0)
Other items	0.3
Net cash inflow from operating activities	3.2

Cash Flow from Financing Activities

The net cash used in financing activities for the year amounted to HK$7.9 million, which mainly included dividend payment of HK$22.3 million, net payment of HK$0.8 million, being repayment of obligation under finance leases and interest incurred on trade financing after setting off net cash inflow from trade loans of HK$15.2 million.

The dividend payment of HK$22.3 million represented a payment of the prior year's final dividend of HK$0.04 per share.

Capital Expenditure and Corporate Activities

The Group had made a capex investment of HK$4.7 million in the year under review. This was mainly financed by the cash internally generated from the operations. With the capital expenditure, the Group would be able to further increase its production capacity, improve quality and expand product variety, which will lay the foundation for the Group 's future development.

During the year, the Group entered into agreements to dispose of all of the Group's interests in associates for an aggregate consideration of HK$3.5 million to the other shareholders of such associates. The Group also acquired back the 10% interest in Shanghai Pin Xin Power Resources Industry Co., Ltd ("Shanghai Pin Xin") from the PRC Partner at a consideration of HK$0.9 million. The Group currently holds a 100% interest (2003: 90%) in Shanghai Pin Xin.

Treasury Management

On 31st March, 2004,the Group had a sufficient level of banking facilities from our major bankers to finance the working capital requirements. For exchange risk management, the Group adopted cautious financial measures to manage and minimize the exchange risk exposure, and in this regard, the Group endeavoured to match the currencies of sales with those of purchase in order to neutralize the effect of currency exposure. Furthermore, the Group also took appropriate financial actions to ensure that the Group borrowings were primarily denominated in Hong Kong dollars, while the non-Hong Kong dollar loans were either directly tied in with the Group 's businesses in the countries of the currencies concerned or such loans were balanced by assets in the same currencies.

Major Customers and Major Suppliers

For the year under review, sales to the largest customer and the five major customers accounted for 11% and 32%, respectively, of total sales for the year.

Purchases from the largest supplier and the five largest suppliers accounted for 3% and 14%, respectively, of total purchases for the year.

As far as the directors are aware, none of the directors of the Company; their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in the customers or suppliers of the Company disclosed above other than portfolio interests.

Employees

On 31st March, 2004, the Group employed 518 executive and clerical staff and 1,868 factory workers. The remuneration of such staff and workers are determined by overall guidelines within each industry. The Group has also adopted a discretionary bonus program, share option scheme, medical insurance and personal accident insurance for its various categories of employees. Awards under award programs, are determined annually based on the performance of the Group as a whole and the careful assessment of the performance of each employee individually.

Corporate Governance

The Board is committed to maintaining a high standard of corporate governance by devoting considerable efforts in identifying and formalizing best practices to enhance corporate value and transparency. To achieve this, the Board has established an Audit Committee, Compensation Committee and Executive Committee.

Audit Committee

The Audit Committee was established pursuant to the Company's Bye-laws and Exchange Listing Rules. The major duties are to assist the Board in fulfilling its oversight responsibilities as to the Company's financial statements, reporting, internal control, and audit findings, as well as the Company's process for monitoring the compliance with certain laws and regulations.

The Audit Committee holds regular meetings at least twice a year in connection with the release of the annual and interim results of the Group and at such other times as the Audit Committee may determine.

Compensation Committee

The Compensation Committee advises the Board on Group compensation theory and practice with a view that a meaningful portion of management's compensation should be contingent upon financial performance of the Company in order to foster the creation of long term shareholder value. The Compensation Committee meets twice a year and at other times as required.

Executive Committee

The Executive Committee is composed of three directors. The Executive Committee was formed to set corporate strategies, policies and objectives and to have oversight of the Group's corporate governance issues. Regular meetings were held to monitor the implementation process and compliance with the policies and decisions of the Board.

Independent Non-executive Directors

The Company confirms it has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Exchange Listing Rules, and it considers them to be independent.