

## MANAGEMENT DISCUSSION & ANALYSIS

### Business Review

The Group's sales increase was mainly driven by stronger growth in the US market for military, aerospace applications, high reliability products and power conversion markets for the first six months of year 2004. Growing unit volumes and revenues increase of the Group displayed strong demands in electronics markets. The Group showed significant improvement in operating profit for the first half year of 2004. The Directors believe that it is reflecting the continued success of the Group's efforts to design for a new variety of customized magnetic components and its manufacturing efficiency.

The Group continues to believe that a strong growth in its legacy customized military, aerospace applications and high reliability magnetic components business will increase in the next few quarters and in the future.

The Group recognizes and anticipates that the electronics industry will continue to be competitive. In order to compete and expand business growth, it is increasingly necessary for higher productivity and efficiency in production and overheads cost reduction.

The Group remained strong in cash position. The Directors believe that our aggressive cost-cutdown activities have positioned us very well for the future. In the next cyclical changes in the market we serve, our cost structure will allow us to produce strong operating margins, maximize the significant strength of our balance sheet and create a more valuable enterprise for our shareholders.

### Financial Review

For the six months ended 30 June 2004, the Group recorded a turnover of HK\$98.0 million, which represented a growth of approximately 45%, or HK\$30.4 million as compared to HK\$67.6 million of the same period last year. The increase was mainly due to strong growth in the US market for military and high reliability, telecommunications and technology equipment products, driven by the continuing recovery of the US economy. The US market is the largest market of the Group, which contributed over 75% of the Group's turnover for the half year ended 30 June 2004. Sales in the US market alone increased by over 47%, or HK\$23.6 million compared with the corresponding period last year, out of which sales of military products contributed over HK\$13.7 million increase.

**Financial Review** (Continued)

For the period under review, the Group reported a profit attributable to shareholders and earnings per share of approximately HK\$17.7 million and HK cents 5.5 respectively as compared to HK\$7.7 million and HK cents 2.4 for the same period in 2003. The significant improvement in operating results was largely due to the growth in turnover, increase in operational efficiency and the benefits brought about by economies of scale due to higher production volumes.

However, the market for electronic components trading remained competitive which affects the selling price of our products. As a result, there is only a slight improvement in gross profit margin from 38% in the first half of 2003 to 39% of the corresponding period in 2004.

With the continued improvement of market sentiment, the expansion of customer base, our continued design efforts and the value of purchase orders on hand, it is expected that the Group will attain a gradual business growth for the rest of the year.

**Liquidity, Financial Resources and Capital Structure**

As at 30 June 2004, the Group had a total shareholders' equity of approximately HK\$191 million (31 December 2003: HK\$177 million), and cash and cash equivalents of approximately HK\$66.8 million (31 December 2003: HK\$58.7 million), which were predominately denominated in US and Hong Kong dollars.

For the six months ended 30 June 2004, the Group had not arranged for any banking facilities and other resources for financing. With the above cash on hand, the Group has adequate resources to meet its working capital needs in the near future.

The Group has strong financial position. There were no debt and no bank loan for the six months ended 30 June 2004.

Capital expenditure for the period under review amounted to approximately HK\$8 million (2003: HK\$0.6 million). In particular, a new office premises was acquired in Hong Kong for expansion of the Group's Hong Kong office to cater for the business growth of the Group.

The Group had limited exposure to foreign exchange fluctuations as most of its accounts receipts and payments are in US dollars.

**Employees and Remuneration Policies**

As at 30 June 2004, the Group employed approximately 1,720 personnel around the world, with approximately 100 in Hong Kong, 1,600 in the PRC and 20 overseas. The Group has a staff education sponsorship program and also provides training courses to staff on operational system, product and technology development, and product safety.

**Contingent Liabilities**

There is no contingent liability as at 30 June 2004 (31 December 2003: HK\$Nil).

**Capital Commitments**

The Group has authorised and contracted capital commitments of HK\$0.8 million as at 30 June 2004 (31 December 2003: HK\$Nil). The Group has adequate financial resources to fund such commitments from its existing cash resources.

**Updated Information on Public Shareholding and Onboard Litigation**

Trading in the shares of the Company has been suspended since 15 August 2002 due to the public float issue of the Company and the litigation of the Company's substantial shareholder, Onboard Technology Limited. Details of which have been published by the Company's announcement dated 17 September 2004.