

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group's turnover for the three months ended 31st July 2004 was HK\$143,171,000 (2003: HK\$110,293,000), up 29.8% as compared with the corresponding period last year. During the period, coils manufacturing segment recorded a 34.1% increase in turnover. As for the electronic components trading segment and information technology segment, the turnover of these segments decreased by 75.0% and 70.2% respectively as compared with the same period last year. These reflected that the Group has been strictly implementing the step-by-step restructuring policy for its business.

During the period under review, the Group's overall gross profit was HK\$31,688,000 (2003: HK\$29,237,000), with an increase of 8.4% as compared with the corresponding period last year, while gross profit margin was 22.1% (2003: 26.5%). The drop in gross profit margin was a combined effect of the sustaining high raw materials prices, as well as the increase in energy charges and wages incurred by the plant in Mainland China. However, with the increasing utilisation rate in assets, it is expected that downward pressure on gross profit margin can be eased in future. During the period, operating profit and profit attributable to shareholders were HK\$11,005,000 (2003: HK\$9,376,000) and HK\$5,816,000 (2003: HK\$4,595,000), up 17.4% and 26.6%, respectively as compared with the same period last year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK\$26,879,000 (2003: HK\$21,463,000) for the period.

Manufacturing Segment

The turnover of the coils manufacturing segment, the Group's core business, recorded a rise of 34.1% to HK\$130,340,000 (2003: HK\$97,191,000) for the three months ended 31st July 2004.

During the period under review, the Group has been adopting a persistent pragmatic approach in operation to meet its customers' requirements with the utmost effort of its whole crew, as the direction in sales and marketing. Meanwhile, the partnership established with its suppliers has been reinforced. The effectiveness of these can be evidenced by the achievement of a steady progress in business during the period.

Under the maturing business environment and system in Mainland China, the Group will grasp such opportunity for business development. For the three months ended 31st July 2004, the turnover in Mainland China reached HK\$44,675,000 (2003: HK\$13,202,000), with a growth of more than two-fold as compared with the same period last year, and accounted for 31.2% (2003: 12.0%) of the Group's overall turnover.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Funds Surplus and Liabilities

As at 31st July 2004, cash and bank deposits (denominated mainly in Hong Kong dollar, United States dollar, Renminbi, Japanese yen, Singapore dollar and New Taiwan dollar) was HK\$71,450,000 (as at 30th April 2004: HK\$49,564,000). The banking facilities were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, investment and machinery, and corporate guarantees provided by the Company and its certain subsidiaries. In addition, the Group is required to meet certain restrictive financial covenants with the major banks. As at 31st July 2004, the Group could comply with such financial ratios, which indicates that the Group's financial position was satisfactory.

As at 31st July 2004, the Group's total borrowings granted from banks and financial institutions was HK\$302,980,000 (as at 30th April 2004: HK\$280,273,000), of which HK\$236,136,000 (as at 30th April 2004: HK\$204,376,000) was current and HK\$66,844,000 (as at 30th April 2004: HK\$75,897,000) was non-current and will be repayable within a period of more than one year but not exceeding five years. Furthermore, contingent liabilities as at the same date amounted to HK\$34,340,000 (as at 30th April 2004: HK\$38,052,000), of which HK\$33,972,000 (as at 30th April 2004: HK\$35,568,000) was factoring of trade receivables with recourse.

Financial Resources and Capital Structure

The Group's net cash inflow for the three months ended 31st July 2004 amounted to HK\$20,648,000 (2003: HK\$30,401,000). Net cash inflow from operating activities was HK\$19,010,000 (2003: HK\$18,511,000). Net cash inflow from financing activities was HK\$17,541,000 (2003: HK\$26,211,000). During the period, the Group obtained banking facilities, some of which were used for the acquisition of new equipment and the payment of operating expenses. Taking into account the corporate development and the market condition, the Group will gradually improve its capital structure. During the period under review, the Group continued to repay certain balances of bank loans for reducing the Group's net gearing ratio*. As at 31st July 2004, the Group's net gearing ratio was 0.85 (as at 30th April 2004: 0.88).

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

Net cash outflow from investing activities for the three months ended 31st July 2004 was HK\$15,412,000 (2003: HK\$14,661,000), the capital expenditure of which was mainly used in purchasing equipment and expanding manufacturing plant, thereby increasing the production capacity.

Cash Flow Summary	Three months ended 31st July	
	2004 HK\$'000	2003 HK\$'000
Net cash inflow from operating activities	19,010	18,511
Net cash outflow from investing activities	(15,412)	(14,661)
Net cash inflow from financing activities	17,541	26,211
Exchange adjustment	(491)	340
Increase in cash and cash equivalents	20,648	30,401

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Charges on Assets

As at 31st July 2004, certain assets of the Group with an aggregate carrying value of HK\$66,936,000 (as at 30th April 2004: HK\$69,671,000) were pledged to secure banking facilities and finance lease.

Exchange Risks

The Group's business is mainly conducted in Mainland China and Hong Kong and the major revenue generating currencies and major currencies in purchase commitments primarily denominated in Hong Kong dollar, Renminbi and United States dollar. As such, the management is of the view that it is not necessary for the Group to purchase any foreign exchange futures or options contract to hedge against exchange risks.

The Group's borrowings are mainly settled in Hong Kong dollars, Renminbi and United States dollars. The management believes that there is no substantial exchange risk.

FUTURE PLAN AND PROSPECTS

The Group will continue to focus on its coils business and actively develop tailor-made products recognised by its customers. To keep up with the new trend, the Group will strive to obtain accreditation on various environmental protection standards. Simultaneously, the Group will actively formulate and strictly implement operating strategies which can effectively reduce its debt. During the period under review, the Group has been enhancing logistics management to reduce inventory level. Inventory, therefore, decreased to HK\$69,990,000 (as at 30th April 2004: HK\$83,973,000). In the coming three quarters, the Group will continue to further refine its logistics management to increase the efficiency in using working capital. It is expected that these strategies can be beneficial to the improvement of the Group's debt level.

EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,500 employees as at 31st July 2004. The remuneration of the employees is determined by reference to market benchmark, individual performance and work experience, subject to review, while bonus entitlement depends on the Group's results and employees' individual performance.