

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group's turnover for the nine months ended 31st January 2005 was HK\$427,523,000 (2004: HK\$346,945,000), up 23.2% as compared with the corresponding period last year, which was attributable to the rise in turnover of coils manufacturing segment and ferrite powder manufacturing segment. However, turnover of electronic components trading segment and information technology segment decreased by 89.1% and 77.6% respectively as compared with the same period last year.

During the period under review, the Group's overall gross profit was HK\$95,344,000 (2004: HK\$87,423,000), with an increase of 9.1% as compared with the corresponding period last year. Gross profit margin decreased to 22.3% (2004: 25.2%), which was mainly due to the sustaining high raw materials prices and the increase in wages in Mainland China.

During the period, operating profit and profit attributable to shareholders were HK\$32,790,000 (2004: HK\$25,895,000) and HK\$18,299,000 (2004: HK\$10,206,000), up 26.6% and 79.3%, respectively as compared with the same period last year, whilst earnings before interest, tax, depreciation and amortisation was HK\$81,050,000 (2004: HK\$70,535,000).

Manufacturing Segment

The turnover of the coils manufacturing segment, the Group's core business, recorded a rise of 28.5% to HK\$390,418,000 (2004: HK\$303,859,000) for the nine months ended 31st January 2005 and accounted for 91.3% (2004: 87.6%) of the Group's turnover. The sales volume of SMD chip inductor, power inductor, toroid coil and transformer primarily drove the increase in turnover.

Turnover of ferrite powder manufacturing segment, which contributed in December 2003, was HK\$26,408,000 (2004: HK\$3,374,000) during the period. The operation of this business segment has moved on to a stable stage.

During the period, turnover of capacitor manufacturing segment decreased by 37.4% to HK\$6,812,000 (2004: HK\$10,881,000) as compared with the same period last year. The Group is currently striving to improve the mode of business operation of this segment, by which the business segment is expected to achieve a better performance in future.

FINANCIAL REVIEW

Funds Surplus and Liabilities

As at 31st January 2005, cash and bank deposits (denominated mainly in Hong Kong dollar, United States dollar, Renminbi, etc) was HK\$59,926,000 (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, 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 January 2005, the Group could comply with such financial ratios, which indicates that the Group's financial position was satisfactory.

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FINANCIAL REVIEW *(continued)*

Funds Surplus and Liabilities (continued)

As at 31st January 2005, the Group's total borrowings granted from banks and financial institutions was HK\$249,678,000 (as at 30th April 2004: HK\$280,273,000), of which HK\$215,035,000 (as at 30th April 2004: HK\$204,376,000) was current and HK\$34,643,000 (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, with a continuous decline in the total borrowings, interest expenses of the Group reduced by 21.7% to HK\$10,618,000 (2004: HK\$13,569,000) as compared with the corresponding period last year.

As at 31st January 2005, contingent liabilities amounted to HK\$26,006,000 (as at 30th April 2004: HK\$38,052,000), all of which HK\$26,006,000 (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 flow for the nine months ended 31st January 2005 amounted to HK\$11,370,000 (2004: HK\$25,384,000). Net cash flow from operating activities was HK\$86,777,000 (2004: HK\$74,817,000). Net cash flow from investing activities was minus HK\$30,256,000 (2004: minus HK\$41,733,000), the capital expenditure of which was mainly used in purchasing equipment and expanding manufacturing plant, thereby increasing the Group's production capacity. Net cash flow from financing activities was minus HK\$44,493,000 (2004: minus HK\$7,818,000). During the period, the Group obtained banking facilities, which were used for the acquisition of new equipment and as working capital. 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 January 2005, the Group's net gearing ratio* was 0.67 (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))

Charges on Assets

As at 31st January 2005, certain assets of the Group with an aggregate carrying value of HK\$48,470,000 (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.

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FUTURE PLAN AND PROSPECTS

The Group expects that the first phase of the construction work for a new plant on a land with a parcel of 35,000 square meters (which would be purchased under an agreement made with the local government in Mainland China last financial year) can be completed in the interim of next financial year. The plant will be used to expand production lines for powder inductor, transformer and capacitor as well as for godown purpose. In addition, a wholly-owned subsidiary of the Group, which was incorporated in Dongguan in December 2004 and will be principally engaged in manufacture and sale of transformers, aims at exploring the local market.

EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,500 employees as at 31st January 2005. The remuneration of the employees is determined by reference to market benchmark, individual performance and work experience, subject to periodic review, while bonus entitlement depends on the Group's results and employees' individual performance.