

## MANAGEMENT DISCUSSION & ANALYSIS

### Business Review

The Group showed significant improvement in operating profit and had a recorded growth in profit for the first six months of year 2005. 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 there will be a strong growth in its legacy customized military, communications applications, high reliability magnetics and power conversion markets. The group remains continuously optimistic about revenue growth and earnings for the rest of year 2005 and in the future.

The Group continues to expand its technology and technical know-how to develop and re-design existing products to create higher quality, more cost competitive components to assist and bridge its customers to new technology.

It is the Group's strategy and efforts to increase its market share and strengthen its market position through direct sales and sales representative forces. The directors believe that its aggressive cost-cutdown activities, high productivity, efficiency and technological know-how have positioned it very well in the future. The directors also believe that its cost structure will allow the Group to produce strong operating margin and create a more valuable enterprise for our shareholders.

The Group continues to invest in equipment and machinery for high automation in production to reduce manufacturing costs and to improve efficiency and productivity.

### Financial Review

For the six months ended 30 June 2005, the Group recorded a turnover of HK\$98.4 million which is comparable to the corresponding period of 2004. The US market for military and high reliability, telecommunications and technology equipment products remained strong. The US market remains the largest market of the Group, which contributed over 75% of the Group's turnover for the half year ended 30 June 2005.

**Financial Review** (Continued)

For the period under review, the Group reported a profit attributable to shareholders and earnings per share of approximately HK\$29 million and HK9.05 cents respectively as compared to HK\$17.5 million and HK5.48 cents for the corresponding period in 2004. The significant improvement in operating results was largely due to the growth in turnover of the military, aerospace and high reliability products by HK\$11.1 million which generally contributed a higher profit margin, and improvement in operational efficiency and higher productivity. As a result, there is a significant improvement in gross profit margin from 38% in the first half of 2004 to 50% of the corresponding period in 2005.

**Liquidity, Financial Resources and Capital Structure**

As at 30 June 2005, the Group had a total shareholder's equity of approximately HK\$227 million (31 December 2004: HK\$205 million), and cash and cash equivalents of approximately HK\$96.2 million (31 December 2004: HK\$84.3 million), which were predominately denominated in US and Hong Kong dollars.

For the six months ended 30 June 2005, 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 2005.

Capital expenditure for the period under review amounted to approximately HK\$2.6 million (2004: HK\$8.2 million).

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 2005, the Group employed approximately 1,600 personnel around the world, with approximately 100 in Hong Kong, 1,480 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**

The Group has no material contingent liability as at 30 June 2005 (31 December 2004: HK\$Nil).

**Capital Commitments**

The Group has no material capital commitment as at 30 June 2005 (31 December 2004: HK\$Nil).

**Outlook**

The prospects for global electronics business are cautiously optimistic and the Group will continue to build on its competitive advantage to sustain growth for the rest of the year and in the coming years.

**Updated Information on Public Shareholding**

Trading in the shares of the Company has been suspended since 15 August 2002 due to the public float issue of the Company. Details of which have been published by the Company's announcement dated 18 August 2005.