MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's turnover for the three months ended 31st July 2005 was HK$145,213,000 (2004: HK$143,171,000) with an increase of 1.4% as compared with the corresponding period last year. During the period, the turnover of electronic components manufacturing segment, the Group's core business, slightly increased by 3.2% to HK$144,842,000 (2004: HK$140,399,000), which accounted for 99.7% (2004: 98.1%) of the Group's turnover. The turnover of the Group's non-core businesses for the period was HK$371,000 (2004: HK$2,772,000), which accounted for 0.3% (2004: 1.9%) of the overall turnover. The under-performed electronic components trading segment had completely terminated its business operation during the period.

During the period, the Group's gross profit was HK$31,370,000 (2004: HK$31,806,000), down 1.4% as compared with the corresponding period last year. Gross profit margin was 21.6% (2004: 22.2%), down 0.6% as compared with the corresponding period last year. The decrease in gross profit margin was mainly attributable to the continued increase in raw materials prices, oil price, energy charges and wages for labour arisen from the shortage of labour in Mainland China, all of which have been exerting pressure on the Group's cost of production. During the period, operating profit and earnings before interest, tax, depreciation and amortisation ("EBITDA") increased to HK$14,106,000 (2004: HK$11,479,000) and HK$30,805,000 (2004: HK$27,156,000), respectively. Profit attributable to equity holders for the period was HK$6,579,000 (2004: HK$5,934,000), up 10.9% as compared with the same period last year.

As at 31st July 2005, the Group's inventory was HK$52,751,000 (30th April 2005: HK$56,762,000). Such decrease in inventory was resulted from the Group's persistent improvement in the management of purchasing, manufacturing and logistics during the period. The Group will actively continue to control the inventory within the reasonable level, which is a target set for the management of purchasing, manufacturing and logistics.

The Group's trade receivables increased to HK$145,200,000 (30th April 2005: HK$97,632,000) as at 31st July 2005. Such increase in the trade receivables was primarily attributable to the Group's adoption of new accounting standards issued by The Hong Kong Institute of Certified Public Accountants. The factoring of trade receivables with recourse, which was previously treated as contingent liabilities in accounting, was treated as current borrowings and transferred to the Group's trade receivables commencing from this financial year. On the other hand, it is a trend for the market to generally have a prolonged credit period, which has accelerated the increase of the Group's trade receivables. As the rising trade receivables will exert pressure on the cash flow and increase the risk of bad debt, the Group will proactively revise its credit management policy with a view to controlling its trade receivables, both in quality and quantity.

FINANCIAL REVIEW

Funds Surplus and Liabilities

As at 31st July 2005, cash and bank balance (denominated mainly in Hong Kong dollar, United States dollar, Renminbi) was HK$88,226,000 (30th April 2005: HK$68,649,000). The banking facilities were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, available-for-sale financial asset and machinery, and corporate guarantees provided by the Company and of its certain subsidiaries. In addition, the Group is required to meet certain restrictive financial covenants with the major banks. As at 31st July 2005, the Group could comply with such financial ratios, which indicates that the Group's financial position was satisfactory.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Funds Surplus and Liabilities (continued)

As at 31st July 2005, the Group's total borrowings granted from banks and financial institutions was HK$299,518,000 (30th April 2005: HK$238,276,000), of which HK$163,819,000 (30th April 2005: HK$214,379,000) was current and HK$135,699,000 (30th April 2005: HK$23,897,000) was non-current and will be repayable within a period of more than one year but not exceeding five years. As mentioned above, factoring of trade receivables with recourse was treated as current borrowings in accounting. Therefore, as at 31st July 2005, the Group had no significant contingent liabilities (30th April 2005: factoring of trade receivables with recourse of HK$21,896,000).

On 27th April 2005, the Company entered into a 3-year transferable term loan and revolving credit facility agreement for an aggregate amount of HK$243,000,000 with a group of banks. The facility was fully drawn down before the end of May 2005 and mainly used to re-organize the Group's debt structure, including the overall current borrowings, non-current borrowings and factoring of trade receivables with recourse. As at 31st July 2005, the re-organization of the Group's debt structure was not yet wholly completed, and thus the Group recorded a comparatively higher level of cash in hand than that at the financial year-end-date of last year. In addition, factoring of trade receivables with recourse was treated as current borrowings in accounting in accordance with the revised accounting standards, which rendered the total borrowings higher than that at the financial year-end-date of last year.

Financial Resources and Capital Structure

The Group's net cash inflow for the three months ended 31st July 2005 amounted to HK$34,894,000 (2004: HK$20,648,000). Net cash outflow from operating activities was HK$19,335,000 (2004: inflow of HK$19,010,000). Net cash inflow from financing activities was HK$71,895,000 (2004: HK$17,541,000). During the period, the increase in net cash inflow from financing activities was mainly attributable to the draw-down of the aggregate amount of HK$243,000,000 under the aforesaid 3-year transferable term loan and revolving credit facility agreement entered into with a group of banks and the accounting treatment of factoring of trade receivables with recourse as current borrowings under the revised accounting standards. In the meantime, with the change of accounting standards, factoring of trade receivables with recourse was transferred to the Group's trade receivables, which gave rise to an increase in the Group's trade receivables and an increase on net cash outflow from operating activities.

As at 31st July 2005, the Group's net gearing ratio* was 0.67 (30th April 2005: 0.64). The rise in net gearing ratio was due to the aforesaid increase in total borrowings. The Group will complete its re-organization of debt structure in the next quarter, and is still extremely prudent to control its financial resources.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Financial Resources and Capital Structure (continued)

For the three months ended 31st July 2005, the Group's interest expenses was HK$4,866,000 (2004: HK$3,612,000). The rise in interest expenses was mainly due to (1) an increase in the Group's total borrowings during the period as mentioned above; (2) the interbank offer rate and prime rate of Hong Kong remarkably soared in the past year, which lead to a rise of more than 2% in the Group's average interest rate of borrowings as compared with that of the corresponding period last year. Faced with such interest-rate hike cycle, the Group will endeavour to reduce all kinds of expenditure (including capital expenditure) and to strengthen the effective use of financial resources so as to reduce borrowings.

For the three months ended 31st July 2005, net cash outflow from investing activities was HK$19,035,000 (2004: HK$15,412,000), the capital expenditure of which was mainly used in purchasing equipment and expanding manufacturing plant, thereby increasing the Group's production capacity.

Cash Flow Summary

	For the three months ended 31st July	
	2005	2004
	HK$'000	HK$'000
Net cash (outflow)/inflow from operating activities	**(19,335)**	19,010
Net cash outflow from investing activities	**(19,035)**	(15,412)
Net cash inflow from financing activities	**71,895**	17,541
Exchange adjustment	**1,369**	(491)
Increase in cash and cash equivalents	**34,894**	20,648

Charges on Assets

As at 31st July 2005, certain assets of the Group with an aggregate carrying value of HK$43,599,000 (as at 30th April 2005: HK$46,221,000) were pledged to secure banking facilities and finance lease.

Exchange Risks

The Group's business is mainly conducted in Mainland China, Hong Kong and South-east Asia and the major revenue currencies and major currencies in purchase commitments primarily denominated in Hong Kong dollar, Renminbi ("RMB") and United States dollar. Since The People's Bank of China announced an appreciation of 2% of RMB against United States dollar at the end of July 2005, the Group's certain revenues and expenses denominated in RMB may be subject to significant impact arising from the fluctuations in RMB in the future, but the fluctuation in RMB has been only preliminary and mild for the time being. As such, the Directors are 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, but will closely monitor the fluctuations in exchange rates of the currencies.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLAN AND PROSPECTS

The Group will continue to consolidate coils manufacturing segment, its core line of business, with prudence in operation to steadily develop the business step by step. The Group's focus for the next few quarters will be the deployment of internal resources, including optimization of the management in trade receivables, purchasing, inventory logistics and production efficiency. Meanwhile, the Group will also improve its production management flow, quality and environmental protection system with a view to enhancing the existing supply capacity and expediting the production cycle as well as attracting the quality customers in terms of its persistent commitment of high product quality for achieving the objective of steady growth. As for the Group's financing management, the Group will adopt a firm and prudent approach. Save all unnecessary expenditure, all investment plans and capital expenditure must get through a stringent feasibility study to assess the return on investment and risks which are acceptable by the Group before they are implemented. Furthermore, the amount of investment is subject to the existing financial covenants imposed by banks.

EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,500 employees as at 31st July 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.