Management Discussion and Analysis

OVERVIEW

The Group's major reorganisation programs have been completed and started to bring rewarding results for the Group during the year under review.

The Group achieved a 20.14% rise in turnover to report at HK$1,226.91 million (2004: HK$1,021.22 million) for the current financial year. The Group's core business segment, plastic injection and moulding business, maintained its position as the major sales contributor of the Group.

The Group's gross profit margin had also registered a promising improvement from 13.61% to 15.22% for the year under review. After taking into account a loss on disposal of fixed assets of HK$17.02 million that arose from the relocation of certain business by the Group during the year, the Group reported a profit attributable to Shareholders of HK$23.76 million during the financial year ended 31 July 2005, representing a surge of over 55 folds against last year.

BUSINESS AND FINANCIAL REVIEW

Turnover and gross profit by business activities of the Group

– *Plastic injection and moulding business*

For the financial year under review, the plastic injection and moulding business had recorded a new hike in sales of HK$1,005.68 million, representing a positive growth of 37.57%, as compared to the previous financial year of HK$731.05 million. Its contribution to the Group's turnover as a whole leapt from 71.59% to 81.97% and the increase was derived largely from the business operations in Zhuhai which produced sales of HK$659.68 million during the year under review (2004: HK$397.70 million).

The plastic injection and moulding segment had also registered impressive results from HK$84.22 million for the previous financial year to HK$117.57 million for the year under review. The improvement was mainly attributable to the management's initiative to carry out the reorganisation exercises in both Qingdao and Shenzhen. The internal resources of the Group had been more effectively deployed and the production facilities were also enhanced in their utilisation, all of which helped to improve the productivity of the Group. Though the sustaining high prices of raw materials were experienced, the Group managed to shift most of the additional cost to the customers and therefore, this segment result was not significantly affected by such factor. With these efforts, this segment had shown marked improvement in the financial year under review.

– *Assembling of electronic products business*

Turnover for assembling of electronic products business had dropped by 28.40% against the previous financial year. The reduction had continued for three consecutive years since 2003 and was mainly due to a decline in orders from a major group of customers. The Group was still in the course of developing good potential customers to fill the gap of sales loss.

Nevertheless, the Group received increased fees generated from the processing of printed circuit boards for electronic products and its related products using surface mounting technologies during the year under review. The processing fees amounted to HK$40.31 million, compared to only HK$30.23 million in the previous financial year.

Despite that the sales of this segment declined in this financial year, this segment recorded an improved contribution margin of 7.97%, compared to 5.23% in the previous year. The increase in the weighting of fees generated from the processing of printed circuit boards against the total turnover of this segment from 13.44% to 25.03% was the main contributing factor as the processing fees which did not include any costs of materials, carried higher margins.

– *Mould design and fabrication business*

During the year ended 31 July 2005, turnover generated from the mould design and fabrication business showed a slight decrease of 7.76% to reach HK$60.16 million (2004: HK$65.22 million). In spite of the reduction in sales, the Group had built up a more stable and broader customer base during the financial year which would certainly bring in more sales orders to the Group in future.

The mould design and fabrication business have now been substantially consolidated in Zhuhai and all relevant resources were centralized and had been better deployed within the Group. Accordingly, this segment result climbed from HK$10.30 million to HK$15.88 million despite a drop in turnover.

Other net losses

The Group recorded significant other net losses of HK$9.00 million (2004: HK$0.47 million) during the financial year ended 31 July 2005. The major component that made up the net losses was loss on disposal of fixed assets of

HK$17.02 million as a result of the closure of a factory in Shenzhen after the relocation of its certain business to Zhuhai during the year under review. The management envisaged that there would be no more significant costs arising there from in view that the relocation had been fully completed during the year.

Distribution and administrative expenses

For the year ended 31 July 2005, total distribution and administrative expenses of the Group of HK$100.04 million were higher by 7.17% against the previous financial year of HK$93.35 million. The increase was mainly derived from distribution costs that recorded a rise of HK$6.52 million as compared against last financial year. The distribution expenses as a percentage of turnover went up by 10.94% from 1.92% in the previous financial year to 2.13% due mainly to the fact that higher provision for doubtful debts was made and purchase of export credit insurance as a preventive measure for bad debts in future.

Finance costs

The finance costs of the Group for the financial year under review amounted to HK$45.61 million (2004: HK$39.96 million), representing an increase of 14.14% over the previous financial year. This was principally attributable to the Group having secured additional bank loans coupled with general increase in interest rates, during the year ended 31 July 2005.

Included in the finance costs was a net exchange loss of HK$3.13 million for the year ended 31 July 2005, compared to HK$3.37 million in the previous financial year. The net exchange losses for both financial years were largely resulted from the settlement of machinery and equipment that were denominated in Japanese Yen which had appreciated against Hong Kong dollars.

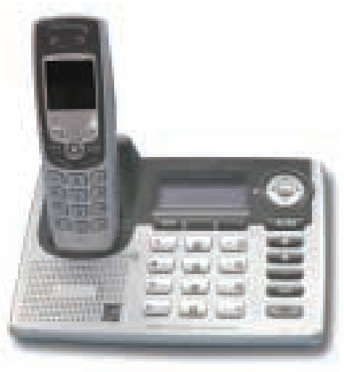
Non-operating expenses

The Group had incurred a non-operating expense of HK$0.32 million during the financial year under review. This expense was in respect of a payment made to the landlord of a factory in Shenzhen as compensation for an early lease termination.

Share of losses of associates

During the financial year under review, the Group established two associated companies namely, Wako VS Nano Technologies (Zhuhai) Co., Ltd. ("Wako VS Zhuhai") and Wako VS Nano Technologies (Hong Kong) Co., Ltd. ("Wako VS HK").

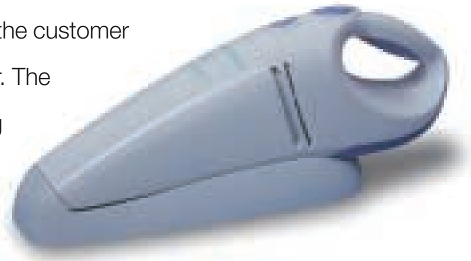
The Group recorded share of losses of associates of HK$3.30 million since the inception of the associated companies in September 2004. The loss mainly resulted from Wako VS Zhuhai, a company involved in the manufacturing and selling of plastic parts and components using spray painting technology, as it had yet to stabilise its sales orders. During the year ended 31 July 2005, Wako VS Zhuhai had placed more emphasis in aligning its production processes and manning while developing potential customers through producing mock-up samples. As for Wako VS HK, it was established principally for investment holding purpose and had only incurred minimal expenses during the year under review.

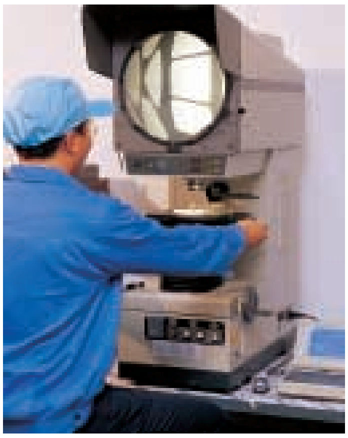


FUTURE PROSPECTS

The completion of the reorganisation and streamlining efforts of the Group are expected to continue steering business growth and stimulating operation efficiency of the Group in the year to come. Barring unforeseen circumstances, both sales and profitability of the Group are envisaged to record improvement in the next financial year.

In term of sales and marketing strategies, the Group would emphasise in strengthening a more balanced customer base. Though the Group has already established certain core customers which give stable sales orders, the Group would continue to build up more good potential customers and further expand the customer network for avoiding any hits that may arise from any fluctuations in a single customer. The Group would also give more emphasis in solidifying the customer base of its assembling and mould design and fabrication businesses in view that these two segments still have enormous room for expansion. All these strategies take time to reap harvest but the Group believes that the solid management team and the vast experience it has in the plastic injection and assembling businesses would overcome any obstacles ahead.





In addition, the Group anticipates the soaring labour cost in the PRC would put a squeeze on the gross profit margin in the short term particularly. The uncertainties in fuel prices would be another major area of concern of the Group and therefore, the Directors would monitor closely the trend of resin price to ensure the shift is done on time. Despite the challenges ahead, the management is confident that, through effective control on costs, strictly control the head count and improvement in inventory management, impacts from high running costs could be contained and the gross profit margin of the Group can be maintained at a stable level.

The Group's production capacity is currently sufficient to cope with anticipated market requirements and hence, the Group would adopt a more prudent capital investment policy in the coming year. With such policy in place, the Group envisages that its gearing level can be gradually reduced to a more reasonable level from the expected operating cash flows.

For the coming financial year, the Board maintains a positive business view and is of the view that the Group has been well positioned to face tough market conditions. The Board will also continue to focus on developing the Group as a one-stop service provider particularly in Zhuhai. Overall, the Directors are optimistic that the Group would achieve better results in the coming financial year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities from banks in Hong Kong and the PRC. During the financial year under review, the Group's net cash inflows from operating activities improved significantly to record at HK$187.32 million (2004: HK$75.17 million). Further, the Group had achieved a positive net movement in cash and cash equivalents of HK$8.79 million, compared to a net decrease in cash and cash equivalent of HK$96.30 million in the previous financial year.

As at 31 July 2005, the Group had cash and bank deposits of HK$266.33 million (2004: HK$240.03 million) of which HK$154.78 million (2004: HK$77.12 million) were pledged to the banks for banking facilities granted to the Group. About 80.77% and 15.54% of the total cash and bank deposits were denominated in United States ("US") dollars and Renminbi ("RMB") respectively with the remainder in Hong Kong dollars.

As at 31 July 2005, total borrowings of the Group were HK$833.82 million (2004: HK$789.91 million), inclusive of a loan from a substantial shareholder of HK$34.24 million (2004: HK$39.13 million). The Group's borrowings maturity profile is set out as follows:

	At 31 July 2005		At 31 July 2004	
	HK$ million	**%**	HK$ million	%
Repayable				
Within 1 year	**518.84**	**62.22**	359.30	45.49
After 1 year but within 2 years	**132.07**	**15.84**	140.36	17.77
After 2 years but within 5 years	**173.13**	**20.76**	261.16	33.06
After 5 years	**9.78**	**1.18**	29.09	3.68
Total borrowings	**833.82**	**100.00**	789.91	100.00
Cash and bank deposits	**(266.33)**		(240.03)	
Net borrowings	**567.49**		549.88	

The increased net borrowings were mainly used for settlement of capital expenditure substantially incurred in prior year which is expected to decline in the next financial year in view that the Group has cut down its capital spending and commitments in recent years. Interest rates were ranging from 2.71% per annum to 5.93% per annum. Among these borrowings, about 40.29%, 48.27% and 11.44% were denominated in US dollars, RMB and Hong Kong dollars respectively.

The Group's gearing ratio, represented by the net interest bearing borrowings over the Group's total assets as at 31 July 2005 was 35.54% (2004: 35.63%). The gearing ratio dropped marginally though the net borrowings increased by HK$17.61 million as the Group enhanced its profit level in this financial year. Accordingly, the Group's net interest bearing borrowings over shareholder's equity had improved from 141.64% to 130.29% as at 31 July 2005.

Even though the Group's current liabilities exceeded its current assets by HK$114.28 million, the Directors are confident that the Group would generate adequate cash flow from its operations and there would have adequate financing being continuously available to the Group in the next 12 months. Therefore, the Directors believe that the Group would improve its financial position and would have sufficient financial resources to satisfy its current commitment and ongoing working capital requirements.

CAPITAL STRUCTURE

As at 31 July 2005, the Group's shareholder's funds were HK$435.55 million (2004: HK$388.23 million). Total assets of the Group, which comprised mainly fixed assets, increased by HK$53.56 million, to stand at HK$1,596.89 million.

CHARGES ON ASSETS

As at 31 July 2005, certain assets of the Group with an aggregate carrying value of HK$679.12 million (2004: HK$329.90 million) were pledged to secure loan and trade finance facilities utilised by the Group.

COMMITMENTS AND CONTINGENT LIABILITY

As at 31 July 2005, the Group's capital and operating lease commitments were HK$28.55 million and HK$31.27 million respectively (2004: HK$20.70 million and HK$187.82 million respectively).

There was also an investment commitment of HK$66.56 million (2004: HK$66.73 million) related to future contribution of capital to a subsidiary in the PRC by the end of year 2005. The Group is currently considering various options which may lead to reduction in the investment commitment.

The Group's contingent liability as at 31 July 2005 was bills discounted with banks on recourse basis which amounted to HK$30.22 million (2004: HK$14.71 million).

FOREIGN EXCHANGE RISK

Most of the Group's transactions, including revenue, purchases and borrowings, were denominated in US dollars and RMB. Though the appreciation of RMB against US dollars at the end of July 2005 may result in some financial impacts from the fluctuations in RMB in the future, the effect for the time being has been preliminary and insignificant. Nevertheless, the Directors will closely monitor the fluctuations in RMB from time to time and take appropriate actions to hedge the exchange risk where necessary.

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2005, the Group had total of 8,141 employees (2004: 5,846). On top of that, 1,019 (2004: 1,381) persons were engaged by certain independent third parties ("Providers") under processing arrangements. During the year ended 31 July 2005, there was no significant change in the Group's remuneration policies for its employees.

Employees costs of the Group (excluding Directors emoluments but including wages paid to employees employed under the processing arrangements with the Providers) for the financial year under review amounted to approximately HK$126.17 million (2004: HK$98.72 million). The Group's remuneration packages are in line with the prevailing market practices and the Group's employees are rewarded on the basis of performance and experience of individual employees. Apart from remuneration policies, the Group has also continuously put efforts in improving the living standard and quality of the employees to attract and retain quality staff as the Directors view that human capital is the most important asset and the vital gear for future growth of the Group.

The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong. It also participates in a government pension scheme for its employees in the PRC pursuant to the relevant rules and regulations of the PRC.

The Company conditionally adopted a share option scheme ("Scheme") on 20 January 2002 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. During the year ended 31 July 2005, the Board granted options under the Scheme to subscribe for 48,988,000 shares of the Company to its employees and Directors. The options are exercisable during the following exercise periods, all of which fall within the period of two years commencing from 12 July 2005:

Date granted	Exercise period	Percentage of options granted
12 July 2005	12 July 2005 to 24 November 2005	25%
	25 November 2005 to 9 April 2006	50%
	10 April 2006 to 22 August 2006	75%
	23 August 2006 to 12 July 2007	100%