MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has been prudent in operating its business and making investment, with policy for optimizing its production and increasing the efficiency of management to enhance the competitiveness of its products and services in developing its core business step by step. Shareholders' return rate has been served as target in controlling the operating expenses, deployment of resources and capital expenditure. For the six months ended 31st October 2005, the Group's turnover, similar to that of the corresponding period last year, was HK$301,272,000 (2004: HK$293,388,000), of which 99.8% came from its core business, electronic components manufacturing segment, with a turnover of HK$300,532,000 (2004: HK$289,979,000).

During the period under review, the Group's gross profit was HK$66,603,000 (2004: HK$65,258,000). Gross profit margin was 22.1% (2004: 22.2%), with a slight decrease of 0.1% as compared with that of the corresponding period last year resulting from its utmost effort in improving its production and logistics efficiency for resisting the pressure exerted on cost of production by the soaring prices of raw materials in metal and plastics, energy charges and wages in Mainland China. Operating profit and profit attributable to equity holders for the period were HK$28,281,000 (2004: HK$23,720,000) and HK$13,806,000 (2004: HK$13,202,000), respectively. During the period, earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK$61,252,000 (2004: HK$55,373,000). The remarkable rise in the interest rate of Hong Kong dollar as compared with that of the same period last year led to an increase in interest expenses. However, the profit indicators could be maintained reflecting the result of the Group's endeavour in controlling cost and operating expenses.

Recently, the employment markets in Hong Kong and Mainland China have been becoming more active than the past few years, with higher remuneration benchmark. The Group also kept up with the markets by reviewing the remuneration system of its subsidiaries and reasonably struck a balance between the positions and the levels of remuneration and fringe benefits. After the review, the Group's overall staff cost recorded a rise of 7.1% to HK$66,430,000 (2004: HK$62,033,000) during the period under review. The Group is currently committed to studying job assignments according to positions for optimizing the division of labour and work flow between departments, and increases work efficiency of staff through effective training programmes. In addition, the Group will introduce new system for performance appraisal in terms of work efficiency. Those with outstanding performance will be provided with generous incentive programmes, through which increases in work efficiency and their enthusiasm for work are expected to be achieved.

FINANCIAL REVIEW

Funds Surplus and Liabilities

As at 31st October 2005, bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$71,295,000 (30th April 2005: HK$68,649,000). The banking facilities were secured by mortgages on the Group's certain buildings, pledges of the Group's bank deposits, available-for-sale financial asset 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 financing banks. As at 31st October 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 October 2005, the Group's total borrowings granted from banks and financial institutions was HK$277,756,000 (30th April 2005: HK$238,276,000), of which HK$162,982,000 (30th April 2005: HK$214,379,000) was current and HK$114,774,000 (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 at 31st October 2005, the current ratio was 1.14 (30th April 2005: 0.77) at a relatively steady level; whilst the Group's average inventory turnover was of approximately 43 days (30th April 2005: 60 days) and the average trade receivable turnover was of approximately 81 days (30th April 2005: 82 days).

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 was mainly used to re-organize the Group's debt structure, including the overall current and non-current borrowings. As at 31st October 2005, the re-organization of the Group's main debt structure was completed, therefore, the level of cash in hand was similar to that at the financial year-end-date of last year.

Financial Resources and Capital Structure

The Group's net cash inflow for the six months ended 31st October 2005 amounted to HK$17,870,000 (2004: outflow of HK$3,051,000). Net cash inflow from operating activities was HK$5,293,000 (2004: HK$67,741,000). Net cash inflow from financing activities was HK$43,831,000 (2004: outflow of HK$45,382,000). 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. The Group expects that the use of fixed term loans in gradually replacing the short-term trade finance and trust receipt bank loans in future can procure relatively stable sources for working capital with a view to reducing the cost of capital.

As at 31st October 2005, the Group's net gearing ratio* was 0.63 (30th April 2005: 0.64). The level of net gearing ratio was similar to that at the financial year-end-date of last year due to the completed re-organization of the Group's main debt structure during the period. The Group will continuously adopt prudent approach 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))*

As to interest expenses, for the six months ended 31st October 2005, the Group's interest expenses was HK$8,835,000 (2004: HK$7,335,000). 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 resulted in a rise of approximately 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 working capital so as to reduce borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Financial Resources and Capital Structure (continued)

For the six months ended 31st October 2005, net cash outflow from investing activities was HK$32,452,000 (2004: HK$25,204,000), the capital expenditure of which was mainly used in purchasing equipment and constructing manufacturing plant, which were approximately HK$16,675,000 (2004: HK$23,049,000) and approximately HK$8,868,000 (2004: Nil), respectively for raising the production capacity, and purchasing investment properties amounting to approximately HK$5,605,000 (2004: HK$1,551,000).

Cash Flow Summary

	For the six months ended 31st October	
	2005	2004
	HK$'000	HK$'000
Net cash inflow from operating activities	**5,293**	67,741
Net cash outflow from investing activities	**(32,452)**	(25,204)
Net cash inflow/(outflow) from financing activities	**43,831**	(45,382)
Exchange adjustment	**1,198**	(206)
Increase/(decrease) in cash and cash equivalents	**17,870**	(3,051)

Charges on Assets

As at 31st October 2005, certain assets of the Group with an aggregate carrying value of HK$39,068,000 (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 Board 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, but will closely monitor the fluctuations in exchange rates of the currencies.

The Group's borrowings are mainly settled in Hong Kong dollars. The Board believes that there is no substantial exchange risk.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLAN AND PROSPECTS

Looking ahead, the Group will continue to face four major challenges: (1) prolonged price-hike of raw materials (especially copper and other metal oxides) and energy; (2) further appreciation of Renminbi; (3) surging labour costs driven by labour-shortage in Mainland China; and (4) over-supply of electronic components which rocks the market and clouds order-sourcing. All the above factors may have negative effects on the Group's earning prospects. The Group expects that the overall business will maintain steady development in the next quarter. However, it is hard to have an accurate forecast on the business development in the fourth and subsequent quarters by virtue of the above-mentioned four factors.

The Group will carry through its prudent investment strategy to develop its core coil business under controllable circumstances, in a sense not to be engaged in any risky investment project with relevant capital expenditure made. The specific development directions are set out as follows:

1. The Group has been regarding Zhongshan, Guangdong Province as its main production base and is contemplating to establish several new production bases in addition to its Zhongshan main plant. The establishment of new production bases will facilitate the Group's staff recruitment in these different regions to relax the labour-shortage pressure being endured by Zhongshan main plant. On the other hand, the newly established production bases can satisfy individual needs of certain partnership customers, cut back certain customer services, reduce logistics cost and simplify the production complexity of the existing Zhongshan plant. Moreover, the newly established production bases will create new management vacancies, leaving room for the existing staff to develop their careers as well as providing the Group with opportunities in training and promoting the management talents.

2. The Group has planned to make Hong Kong as its core management base in Pan Pearl River Delta region. Hong Kong will be developed into the administrative base of marketing, sales, information technology, capital management and product research and development. The Group has assigned some young management trainees, who were trained earlier in its subsidiaries in Mainland China, to the above-mentioned functional positions; while production bases located in Pan Pearl River Delta region, including Zhongshan plant, Dongguan plant, Nanjing plant, Gaozhou plant, Xiamen plant and Kunshan plant, are responsible for production technology, quality control and logistics management. Besides, the Group is considering the feasibility in establishing additional centers for product research and development in Hong Kong, other than in Zhongshan, with an objective to recruit science and technology talents from Hong Kong, Mainland China and even from world-wide for raising the Group's capability in product development in the future. The feasibility study of this project is being conducted by the Group. It is expected to have the results of the study before the end of this financial year-end-date.

EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,700 employees as at 31st October 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. Under the share option scheme of the Company, options may be granted to eligible employees to subscribe for shares in the Company.