MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the nine months ended 31st January 2006, the Group's turnover recorded HK$452,948,000 (2005: HK$427,523,000), with an increase of 5.9% as compared with the corresponding period last year. The core business – electronic components manufacturing segment, the turnover of which was HK$451,911,000 (2005: HK$423,638,000), up 6.7% as compared with the corresponding period last year, and accounted for 99.8% (2005: 99.1%) of the Group's turnover.

During the period, the Group's gross profit and operating profit were HK$99,437,000 (2005: HK$95,698,000) and HK$39,653,000 (2005: HK$34,259,000) respectively, up 3.9% and 15.7% respectively as compared with the corresponding period last year. However, gross profit margin for the period was 22.0% (2005: 22.4%), down approximately 0.4% as compared with the same period last year, which was mainly attributable to the sustained increase in prices of raw materials and a 2% appreciation in Renminbi. As a direct consequence, the Group's cost of production in Mainland China has been pushed up. The rising wages in Mainland China had a notable effect on the Group's cost of production. During the period, earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK$89,068,000 (2005: HK$81,806,000), up 8.9% as compared with the same period last year, whilst profit attributable to equity holders was down 1.4% to HK$18,397,000 (2005: HK$18,653,000) as compared with the same period last year. This primarily resulted from the several increases in interest rates of Hong Kong in following the interest policy of the United States, which gave rise to a significant increase in the Group's interest expenses, and the increase in profit before tax and the change of tax incentives for certain profit-contributed subsidiaries in Mainland China, which made the Group's tax charge rise remarkably by 73.7% to HK$6,940,000 (2005: HK$3,995,000).

During the period, the Group faced with rising cost of production. In view of the soaring remuneration in Hong Kong and Mainland China, the Group had made reasonable adjustments on the staff remuneration during the period with a view to maintaining a stable human resources and a sustained productivity of its production bases in Mainland China. For the nine months ended 31st January 2006, the wages of production staff was HK$63,815,000 (2005: HK$57,694,000), up 10.6% as compared with the same period last year; whilst the staff remuneration for sales and marketing, administration and the management rose by 16.9% to HK$31,372,000 (2005: HK$26,828,000) as compared with the same period last year. This resulted from the increases in staff and staff remuneration. The Group expects that the pressure of labour market will continue in the near future and the future wage level may go up further. As such, gross profit margin will be most probably under sustained pressure.

FINANCIAL REVIEW

Funds Surplus and Liabilities

As at 31st January 2006, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$73,870,000 (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 January 2006, 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 January 2006, the Group's total borrowings granted from banks and financial institutions was HK$275,808,000 (30th April 2005: HK$238,276,000), of which HK$170,642,000 (30th April 2005: HK$214,379,000) was current and HK$105,166,000 (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 January 2006, the current ratio was 1.10 (30th April 2005: 0.77); whilst the Group's average inventory turnover was of approximately 46 days (30th April 2005: 60 days) and the average trade receivables 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. The re-organization of the Group's main debt structure was completed during the period. Hence, 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 nine months ended 31st January 2006 amounted to HK$20,301,000 (2005: HK$11,370,000). Net cash inflow from operating activities was HK$29,223,000 (2005: HK$86,777,000). The factoring of trade receivables with recourse was transferred to trade receivables in accordance with the revised accounting standards during the period. As a result, the Group's trade receivables increased and net cash inflow from operating activities reduced. Net cash inflow from financing activities was HK$36,927,000 (2005: outflow of HK$44,493,000). During the period, the increase in net cash inflow from financing activities was mainly attributable to the draw-down of the aforesaid aggregate amount of HK$243,000,000 under the aforesaid 3-year transferable term loan and revolving credit facility agreement. The Group expects to use fixed term loans for gradually replacing the short-term trade finance and trust receipt bank loans in future and believes that this can procure relatively stable sources for working capital with a view to reducing the cost of capital.

As at 31st January 2006, the Group's net gearing ratio* was 0.61 (30th April 2005: 0.64). The Group will continue to control its financial resources in a prudent manner and proactively lower the financial leverage ratio to achieve a more stable business development in future.

(* *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))*

In regard to interest expenses, for the nine months ended 31st January 2006, the Group's interest expenses was HK$13,085,000 (2005: HK$10,618,000), with a significant increase of 23% as compared with the corresponding period last year. The rise in interest expenses was mainly due to the several increases in interbank offer rate and prime rate of Hong Kong in the past year, which led to a rise of approximately 2% in the Group's average interest rate of borrowings as compared with that of the corresponding period last year. Since the cycle of interest rate hike has not yet come to an end, the Group will endeavour to reduce all kinds of 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 nine months ended 31st January 2006, the net cash outflow of the investing activities was HK$47,760,000 (2005: HK$30,256,000). The capital expenditure was mainly utilized in the construction of a new manufacturing plant in Zhongshan amounting to approximately HK$11,227,000 (2005: HK$1,382,000) with an aim to provide basic infrastructure for expansion of the Group's Zhongshan main plant in the next five years. The purchase of machinery and equipment for enhancing production capacity amounted to HK$28,686,000 (2005: HK$26,871,000). The investment properties purchased in Hong Kong, which amounted to HK$6,315,000 (2005: HK$1,551,000), were mainly the other flats in the industrial building where the Hong Kong headquarters of the Group is situated. The purpose of the investment is to provide areas reserved for business development by the Hong Kong headquarters of the Group in the next ten years. The Group considers that it is the prime time for it to purchase those flats during the period. The infrastructure and investment project for long-term development as aforesaid have nearly completed. It is expected that the capital expenditure for the next financial year will decrease substantially, and that the need for capital and the interest expenses in future will reduce as well.

Cash Flow Summary

	For the nine months ended 31st January	
	2006	2005
	HK$'000	HK$'000
Net cash inflow from operating activities	**29,223**	86,777
Net cash outflow from investing activities	**(47,760)**	(30,256)
Net cash inflow/(outflow) from financing activities	**36,927**	(44,493)
Exchange adjustment	**1,911**	(658)
Increase in cash and cash equivalents	**20,301**	11,370

Charges on Assets

As at 31st January 2006, certain assets of the Group with an aggregate carrying value of HK$39,069,000 (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 are denominated in Hong Kong dollar, Renminbi ("RMB") and United States dollar. Since The People's Bank of China announced a 2% appreciation in 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 mild until now. 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

"Prudence" will still be the most important criterion for the Group's future development, that is, the Group will continue to develop its specialized coils manufacturing business. The Group expects that the future is still full of challenges and considers that the prolonged shortage of labour in Mainland China will bring about a substantial rise in cost of human resources. In view of this, it is indispensable to improve the production efficiency to offset the pressure of cost of human resources. The Group has recently worked on a plan to re-engineer its production lines with one of its major business partners. The partner will introduce sophisticated production processes and logistics process management to tremendously improve the Group's effective use of resources, thereby jointly reaping the economic benefits derived from the optimization of production lines.

While improving production efficiency, the Group will implement a series of new measures to improve the effective use of working capital. With such measures, the management of trade receivables recovery can be further refined in order to ease the pressure on working capital exerted by credit period. The risks of overdue trade receivables and bad debts caused by market fluctuation can also be strictly controlled. On the other hand, the Group will revise its purchase policy to vigorously keep raw materials inventory at a low level. The measures will help the Group reduce the debt ratio in future, which not only improves the existing capital structure, but also relieves the pressure on the Group's capital cost during the cycle of interest rate hike, thereby improving the profitability of the Group in the future.

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 6,500 employees as at 31st January 2006. 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.