

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group made remarkable achievement for the current period. Revenue was about HK\$459 million which represented a year on year growth of 82%. Profit attributable to equity holders was about HK\$98 million which represented a year on year growth of 279%. The outstanding operating performance was mainly attributable to the strong global demand for mobile phones during the current period and the Group's timely addition of highly sophisticated production equipment since the second half of last year so as to cope with the foreseeable huge demand for High Density Interconnect ("HDI") printed circuit boards ("PCB").

During the current period, the sales orders coming from the telecommunication product customers were enormous and their profit margin was on average far greater than those from other electronic products customers. In order to obtain the highest economic benefit out of existing resources, most of the Group's PCB production capacity was devoted to meet the demand from the telecommunication product customers as much as possible. Accordingly, the sales value of PCB sold to the telecommunication product customers increased to about 85% of the Group's revenue for the current period.

Because the sales of different categories of PCB increased almost at the same pace during the current period, there was no significant change in the sales mix as compared to the last corresponding period. About two-third of the Group's revenue comprised HDI PCB and about one-third of the Group's revenue comprised two-layer and multi-layer PCB.

The Group's PCB average selling price for the current period increased by about 13% as compared to the last corresponding period. Resulting from the increase in production volume during the current period, the Group further obtained benefits from the economy of scale like bulk purchase discount and lower average fixed overhead cost per unit etc. However, the Group's gross profit ratio for the current period increased by about 11% only because of the substantial increment in the purchase prices of certain models of essential raw material items such as laminate and copper foil etc. of which the purchase prices have increased by as much as 40% during the current period as a result of the continuous mismatch of global demand and supply for copper and glass fibre.

Financial Review

The total capital expenditure incurred by the Group during the current period amounted to about HK\$108 million which consisted mainly of highly sophisticated production equipment acquired to cope with the foreseeable huge demand for HDI PCB. External finance lease facilities amounting to about HK\$50 million had been arranged in last year to finance part of these capital expenditure during the current period while the balance had been or would be financed by the Group's internal resources.

The Group's gearing ratio (defined as the ratio of interest-bearing bank and other borrowings to total equity) at 30 September 2006 and 31 March 2006 was 0.29 times and 0.28 times respectively while the Group's current ratio at 30 September 2006 and 31 March 2006 was 1.28 times and 1.05 times respectively. Although the Group's PCB operation generated net cash inflow of about HK\$70 million during the current period, the gearing ratio had slightly increased instead because of the finance of the capital expenditure by external finance lease facilities amounting to about HK\$50 million during the current period as mentioned above.

As at 30 September 2006, the Group's interest-bearing bank and other borrowings amounting to HK\$97,371,000 (31 March 2006: HK\$66,425,000) out of which HK\$42,641,000 (31 March 2006: HK\$32,208,000) were repayable within the next 12 months. These borrowings were all denominated in Hong Kong dollars ("HK\$"), originally repayable monthly over 3 years (except for the bank borrowings as at 31 March 2006 totaling HK\$4,501,000 which were originally repayable within 3 months) and subjected to floating interest rates for about 88% (31 March 2006: 79%) of them. The Group has not adopted any interest rate hedging tool for these borrowings. Certain machinery and equipment of the Group with a net book value at 30 September 2006 of HK\$113,464,000 (31 March 2006: HK\$70,089,000) were pledged to secured these borrowings.

As at 30 September 2006, the Group's assets and liabilities were mostly denominated in either HK\$, US\$ or Renminbi ("RMB"). Because the exchange rate for US\$ against HK\$ is relatively stable in Hong Kong for the moment, the Group has not adopted any hedging tool against its assets or liabilities denominated in US\$. Also because the Group's subsidiary in Mainland China has net assets as at 30 September 2006 and RMB is expected to appreciate gradually, there is only a remote possibility that the Group will suffer exchange loss on the translation of these net assets and so the Group has not adopted any hedging tool against these net assets denominated in RMB. However, the Group began to make use of foreign exchange forward contracts during the current period to hedge against about one-third of its operating expenses to be paid in RMB in light of the likely appreciation of RMB.

Employee Benefits

As at 30 September 2006, the Group had 1,842 (31 March 2006: 2,001) employees, including directors, working mainly in Mainland China. For the period ended 30 September 2006, the Group's total staff costs including directors' remuneration were HK\$ HK\$21,077,000 (2006: HK\$14,880,000).

According to the Group's staff remuneration policy, the remuneration of an employee and the Company's director is determined by the Board and the Company's Remuneration Committee respectively from time to time with reference to his performance and duties, the performance and profitability of his employer and the prevailing market conditions.

Outlook

It is estimated by some industry analysts that the global sales of mobile phones in the year 2006 will reach about 1 billion units. Certainly, it is hard to find a single electronic product with such a great demand like that of mobile phone for the moment. The Group's strategic alliance with Daisho Denshi Co. Ltd. (one of the top PCB manufacturers in Japan and one of the Company's substantial shareholders) in the provision of highly delicate PCB for the telecommunication product customers has been proven to be the right move. The Group is progressing to the manufacture of next hierarchy of HDI PCB which requires more advance technology in order to stand out further from the majority of competitors and the Group's existing customer base comprising many world-renowned customers will become the springboard for the Group to advance further.

The Group has begun to develop business with more non-telecommunication products customers and the result is encouraging. Some famous customers manufacturing such electronic products as digital camera, laser printer and photocopier etc. have promised to place more sales orders with the Group from the year 2007 onwards. The Group will gradually broaden its customer base and achieve a more balanced growth.

The Group is well aware of the keen competition within the telecommunication product industry. Resulting from the rapid launch of different new models of mobile phone in the past, most telecommunication product customers have suffered from the reduction in the average selling price for their products. In order to avoid the early erosion in the average selling price, the Group's telecommunication product customers have begun to re-schedule the launch of some new models of mobile phone since August 2006. The re-schedule will definitely decelerate the growth of the Group but the extent of the impact cannot be assessed for the moment because it will depend on the duration of the re-schedule and the number of new models of mobile phone re-scheduled for launching.

The road ahead for the Group will be full of business opportunities and challenge. Equipped with sound financial position and ample experience in the manufacture of highly delicate PCB, the Group is ready to catch the business opportunities and confront the challenge.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.0 cents per ordinary share for the year ending 31 March 2007 (2006: Nil). The interim dividend will be paid on 7 February 2007 to shareholders whose names are registered in the register of members of the Company on 26 January 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 24 January 2007 to 26 January 2007, both days inclusive during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 23 January 2007.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the 6 months ended 30 September 2006, except for the following deviations:

Chairman and Chief Executive Officer

According to the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company does not have a separate Chairman and CEO, and Mr. Chan Sik Ming, Harry currently holds both positions. The Board believes that vesting the roles of both Chairman and CEO in the same person ensures consistent leadership within the Group and enables more effective and efficient planning of long-term strategies and implementation of business plans. The Board believes that the balance of power and authority will not be impaired and is adequately ensured by an effective Board which comprises experienced and high calibre individuals with a sufficient number thereof being independent non-executive directors.