MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The turnover of the Group for the six months ended 31 October 2006 was HK$351,918,000 (2005: HK$301,272,000) achieving an increase of 16.8% as compared with the corresponding period last year. The Group's core business, electronic components manufacturing segment, the turnover of which was HK$351,189,000 (2005: HK$300,532,000) and accounted for 99.8% (2005: 99.8%) of the Group's turnover. Sales analysis by geographical location reflecting the main turnover growth drivers were Mainland China and other countries in Asia, of which the turnover from Mainland China reported approximately HK$157,875,000 (2005: HK$114,828,000), up 37% as compared with the same period last year. Besides, turnover from Singapore and Taiwan reported approximately HK$20,840,000 (2005: HK$15,505,000) and HK$24,404,000 (2005: HK$21,111,000) respectively, up 34% and 16% respectively as compared with the same period last year.

During the period under review, the sustained rises in prices of metallic materials and energy cost as well as the soaring staff wages of Mainland China giving rise to an increase of approximately 5% in the average wage of production staff as compared with the corresponding period last year propelled the overall production cost upwards. Gross profit margin decreased by 1.9% to 20.2% (2005: 22.1%) as compared with the corresponding period last year. Gross profit for the period was HK$71,109,000 (2005: HK$66,603,000). Profit attributable to equity holders of the Company for the period was HK$14,010,000 (2005: HK$13,806,000). Net profit margin reduced by 0.6% to 4.0% (2005: 4.6%) as compared with the corresponding period last year, which was mainly attributable to the decline in gross profit margin and the increase of approximately 7% in the average salary of sales and marketing, administrative and management personnel during the period.

As at 31 October 2006, the Group's total accounts receivables rose to HK$180,672,000 (30 April 2006: HK$162,622,000), which was primarily attributable to the increase in the Group's turnover as compared with the corresponding period last year. On the other hand, the prolonged repayment period has been a tendency in the market, accelerating the rise in overall accounts receivables. The Group's total inventory was HK$71,821,000 (30 April 2006: HK$65,428,000), up approximately 9.8% as compared with that of the financial year-end date of last year. The Group will continue to improve the management of purchasing, manufacturing and logistics and to actively control the inventory within a reasonable level.

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2006, the Group's bank balance and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$73,349,000 (30 April 2006: HK$73,008,000). The banking facilities amounting to HK$292,069,000 were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, available-for-sale financial assets and machinery, and corporate guarantees provided by the Company and its certain subsidiaries. In addition, the Group is required to comply with certain restrictive financial covenants imposed by the major financing banks. As at 31 October 2006, the Group complied with such financial covenants, which indicates that the Group's financial position was satisfactory.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Fund Surplus and Liabilities (continued)

As at 31 October 2006, the Group's total borrowings granted from banks and financial institutions amounted to HK$286,690,000 (30 April 2006: HK$271,321,000), of which HK$238,126,000 (30 April 2006: HK$183,956,000) will be repayable within one year and HK$48,564,000 (30 April 2006: HK$87,365,000) will be repayable within a period of more than one year but not exceeding five years. As at 31 October 2006, the Group's net gearing ratio* was 0.60 (30 April 2006: 0.59). The Group will continue to prudently control its financial resources for gradually reducing the Group's debt level.

(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))*

Financial Resources and Capital Structure

For the six months ended 31 October 2006, the Group's net cash inflow was HK$3,347,000 (2005: HK$17,870,000). The net cash inflow from operating activities was HK$28,848,000 (2005: HK$5,293,000). The net cash inflow from financing activities was HK$2,809,000 (2005: HK$43,831,000). The total net cash inflows from operating activities and financing activities of the same period last year were comparatively higher than those of the period under review due to the draw-down of the aggregate amount of HK$243,000,000 under the 3-year transferable term loan and revolving credit facility agreement by the Company during the same period last year. As regards to interest expenses, for the six months ended 31 October 2006, the Group's interest expenses amounted to HK$9,103,000 (2005: HK$8,835,000), up approximately 3% as compared with the same period last year.

For the six months ended 31 October 2006, net cash outflow from investing activities was HK$30,172,000 (2005: HK$32,452,000), of which HK$24,734,000 (2005: HK$25,543,000) was mainly used for the purchase of machinery and equipment and expansion of plant with a view to raising production capacity.

Cash Flow Summary

	For the six months ended 31 October	
	2006	2005
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**28,848**	5,293
Net cash outflow from investing activities	**(30,172)**	(32,452)
Net cash inflow from financing activities	**2,809**	43,831
Exchange adjustment	**1,862**	1,198
Increase in cash and cash equivalents	**3,347**	17,870

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Financial Resources and Capital Structure (continued)

As at 31 October 2006, the Group's current ratio was 1.0 (30 April 2006: 1.1). The lower current ratio was due to the increase of HK$54,170,000 in the outstanding balance of the Group's short-term borrowings as at 31 October 2006, as compared with that as at the financial year-end date of last year. On the contrary, the outstanding balance of the Group's long-term borrowings as at 31 October 2006 reduced by HK$38,801,000, as compared with that as at the financial year-end date of last year. On the other hand, the use of HK$7,521,000 for the purchase of properties by the Group during the period under review also had an impact on the current ratio. The Board will focus on controlling the working capital and the change of capital structure so as to improve the current ratio.

Charges on Assets

As at 31 October 2006, certain assets of the Group with an aggregate carrying value of approximately HK$38,146,000 (30 April 2006: HK$41,356,000) were pledged to secure banking facilities and finance lease of the Group.

Exchange Risks

The Group's business is mainly conducted in Mainland China, Hong Kong and South-east Asia. The major revenue currencies are primarily denominated in Hong Kong dollar, Renminbi and United States dollar; whilst the major currencies in purchase commitments are primarily denominated in Hong Kong dollar, Renminbi, United States dollar and Japanese Yen. Renminbi has been on upward trend since The People's Bank of China announced an appreciation of Renminbi against United States dollar at the end of July 2005. Recently, Renminbi has a stronger rise and once surpassed 1:1 against Hong Kong dollar. It is predicted that the appreciation of Renminbi will continue. As such, the Group's certain revenues and expenses denominated in Renminbi may be subject to significant impact arising from the fluctuations in Renminbi. The Board is closely monitoring 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.

FUTURE PLAN AND PROSPECTS

The Group has been facing price fluctuation of metal materials, soaring staff wages in Mainland China and the sustained appreciation of Renminbi, giving rise to a downward trend of its gross profit margin. The Board considers that the pressure on costs will continue. However, the Board and the senior management will endeavour to lead all staff to make dedication for work with a view to raising the Group's operating performance in all aspects to resist the sustained pressure on costs.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLAN AND PROSPECTS *(continued)*

The Group has assessed the feasibility of developing energy-saving products in the previous year. After thorough consideration, the Group has positioned this project as a second manufacturing segment, in addition to the electronic components manufacturing segment. The Group will establish a research and development centre for the new products at its Hong Kong headquarters and recruit relevant technological research staff to develop those products related to energy-saving products. The Group aims at developing the second manufacturing segment in two years and expects that the new products will become another source of income, other than the electronic components manufacturing segment, in 2008-2009 financial year. In addition, the Group has purchased a property in Zhongguancun, Beijing, at which an equipment development centre will be established in 4 to 6 months from the date of this report. The centre will be responsible for developing and manufacturing high-quality equipment which can be used for the energy-saving products of the Group.

The Group anticipates that the newly developed products can be launched to the market within the next two years and the Zhongshan main workshop will take up such production. The manufacturing workshops of the Group, other than the Zhongshan main workshop, have commenced study on the pilot run of coils production. In addition, further installation and expansion of production facilities will be made in the future so as to diverge part of coils production from the Zhongshan main workshop to such manufacturing workshops, thereby catering for the manufacture of the new products with its spare production capacity.

EMPLOYEES

The Group employed approximately 7,900 (2005: 6,700) employees as at 31 October 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. Other employee benefits include pension scheme and medical insurance. Subsidies on training and education are also provided. Under the share option scheme of the Company, options may be granted to eligible employees to subscribe for shares in the Company.

For re-positioning Hong Kong as a core management base, the Group has, through the Admission Scheme for Mainland Talents and Professionals of Hong Kong government, been recruiting and assigning Mainland talents to take up leading and managerial work in Hong Kong. In 2006, four experienced Mainland management staff were admitted for employment in Hong Kong headquarters of the Group. Looking ahead, there are still a number of job vacancies of the Group for recruitment from Mainland China to build up a full-fledged management team.