MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the nine months ended 31 January 2007, the turnover of the Group was HK$529,527,000 (2006: HK$452,948,000), with an increase of 16.9% as compared with the corresponding period last year. The turnover of electronic components manufacturing segment, the Group's core business, was HK$528,265,000 (2006: HK$451,911,000) which accounted for 99.8% (2006: 99.8%) of the Group's turnover. Analysis by geographical location showed that Mainland China and other countries in Asia mainly contributed to the turnover growth. The turnover of Mainland China reported approximately HK$241,697,000 (2006: HK$180,961,000), up 33.6% as compared with the corresponding period last year. In addition, turnover from Singapore and Taiwan were approximately HK$31,402,000 (2006: HK$24,581,000) and HK$37,257,000 (2006: HK$32,175,000) respectively, up 27.7% and 15.8% respectively as compared with the same period last year.

During the period under review, the prices of raw materials and energy cost had been staying high. The prices of major raw materials such as nickel and zinc rose by approximately 132% and 52% respectively as compared with those of the corresponding period last year, whilst the prices of metal raw materials showed a sign of pick-up after a slide during the period. Moreover, the uptrend for staff wages of Mainland China led to an increase of approximately 6% in the average wage of production staff as compared with the same period last year. All of these drove up the overall production cost. Gross profit margin declined by 2% to 20% (2006: 22%) as compared with the same period last year. Gross profit for the period was HK$105,681,000 (2006: HK$99,437,000). Profit attributable to equity holders of the Company for the period was HK$18,463,000 (2006: HK$18,397,000). Net profit margin slipped 0.6% to 3.5% (2006: 4.1%) as compared with the corresponding period last year, which was mainly attributable to the decline in gross profit margin and the rise of approximately 5% in the average salary of sales and marketing, administrative and management personnel during the period, as well as the expansion of some subsidiaries and representative offices of the Group in the overseas and Mainland China during the period resulting in increases in selling and administrative expenses as compared with those of the corresponding period last year.

As at 31 January 2007, the Group's total accounts receivables was HK$163,141,000 (30 April 2006: HK$162,622,000), which was similar to that of the financial year-end date of last year. The Group's total inventory was HK$76,804,000 (30 April 2006: HK$ 65,428,000), up approximately 17.4% as compared with that of the financial year-end date of last year. The sustained rise in prices of raw materials had impact on such increase to certain extent.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 January 2007, the Group's bank balance and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$58,015,000 (30 April 2006: HK$73,008,000). The banking facilities amounting to HK$273,886,000 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 January 2007, the Group complied with such financial covenants, which indicates that the Group's financial position remained satisfactory.

As at 31 January 2007, the Group's total borrowings granted from banks and financial institutions amounted to HK$271,730,000 (30 April 2006: HK$271,321,000), of which HK$241,739,000 (30 April 2006: HK$183,956,000) will be repayable within one year and HK$29,991,000 (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 January 2007, the Group's net gearing ratio* was 0.58 (30 April 2006: 0.59). The net gearing ratio was similar to that of the financial year-end date of last year reflecting that the Group has been making a continued control on its financial resources with prudence during the period.

(* *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 nine months ended 31 January 2007, the Group's net cash outflow (decrease in cash and cash equivalents) was HK$12,236,000 (2006: net cash inflow (increase in cash and cash equivalents) of HK$20,301,000). The net cash inflow from operating activities was HK$43,157,000 (2006: HK$29,223,000). The net cash outflow from financing activities was HK$16,795,000 (2006: inflow of HK$36,927,000). The net cash inflow from financing activities of the corresponding period last year was comparatively higher than that 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. In respect of interest expenses, for the nine months ended 31 January 2007, the Group's interest expenses amounted to HK$13,823,000 (2006: HK$13,085,000), up approximately 5.6% as compared with the corresponding period last year.

For the nine months ended 31 January 2007, net cash outflow from investing activities was HK$42,845,000 (2006: HK$47,760,000). Part of the capital expenditure was used in purchasing properties for self-use for the expansion of Hong Kong headquarters, while the remaining portion was used for the purchase of machinery and equipment and the expansion of plant in order to enhance the production capacity.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Financial Resources and Capital Structure (continued)

Cash Flow Summary

	For the nine months ended 31 January	
	2007	2006
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**43,157**	29,223
Net cash outflow from investing activities	**(42,845)**	(47,760)
Net cash (outflow)/inflow from financing activities	**(16,795)**	36,927
Exchange adjustment	**4,247**	1,911
(Decrease)/increase in cash and cash equivalents	**(12,236)**	20,301

As at 31 January 2007, the Group's current ratio was 1.0 (30 April 2006: 1.1). The lower current ratio was due to the increase of HK$57,783,000 in the outstanding balance of the Group's short-term borrowings as at 31 January 2007, 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 January 2007 reduced by HK$57,374,000, as compared with that as at the financial year-end date of last year. On the other hand, the purchase of properties and construction of plant amounting to approximately HK$17,681,000 for the long-term expansion during the period under review also exerted influence on the current ratio. The Board will continue to focus on controlling the working capital and the change of capital structure with a view to improving the current ratio.

Charges on Assets

As at 31 January 2007, certain assets of the Group with an aggregate carrying value of approximately HK$38,621,000 (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. As most of the Group's operating expenses for production arise from Mainland China, the appreciation of Renminbi will have a negative impact on the Group's certain payments for purchase commitments 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLAN AND PROSPECTS

The prices of some major raw materials for the Group are still volatile. In addition, the soaring wages of Mainland China posing a problem of pushing up the cost, together with the sustained appreciation of Renminbi, will lead to increases in the production cost and expenses of Mainland China. Accordingly, the Board believes that the pressure of rising cost will continue for some time. The Group will make more flexible settlements in terms of the credit periods granted by its major suppliers for bargaining better purchasing prices. In the meantime, the Group will also endeavour to reduce the wear and tear of raw materials arisen from the production process. On the other hand, the Group will negotiate with the relevant customers on those products, which are significantly influenced by the rise of production cost, with a view to yielding better market prices.

The Group will continue to proactively explore the existing coils market for promoting the overall turnover. In the meantime, the Group will develop the energy-saving products and continue to put resources into purchasing facilities for research and development and recruiting technological research staff in line with the coming launch of new energy-saving products.

EMPLOYEES

The Group employed approximately 7,400 (2006: 6,500) employees as at 31 January 2007. 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.