

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group achieved another breakthrough in operating performance for the current year with both revenue and net profit at record high. The Group's revenue for the current year was about HK\$750 million, up 20% from last year. The Group's net profit after tax for the current year was about HK\$143 million, up 31% from last year.

The outstanding operating performance of the Group for the current year was mainly attributable to two major factors. Firstly, the Group was benefited from the strong global demand for high density inter-connect ("HDI") printed circuit boards ("PCB") for mobile phones, particularly during the first half of the current year because HDI PCB has become the main stream of PCB used for modern mobile phones nowadays. Secondly, the Group acquired timely a series of highly sophisticated production machines from the second half of last year to enlarge its production capacity for HDI PCB and the Group was capable of meeting the huge demand for HDI PCB by the world-renowned telecommunication product customers.

The Group's production facilities were most suitable and best utilized for the manufacture of HDI PCB. Because mobile phone was still the most common product application for HDI PCB and the profit margins from telecommunication product customers were on average far greater than those from other electronic products customers, most of the Group's PCB production capacity for the current year was devoted to meet the demand from the telecommunication product customers. Accordingly, the sales value of PCB for the telecommunication product customers as a proportion of the Group's revenue further increased from about 74% in last year to about 80% in current year.

The Group's gross profit margin decreased slightly from about 45% in last year to about 43% in current year. Although the Group's PCB average selling price during the current year remained stable as compared to last year, the increase in the depreciation charges and the average purchase price of laminate during the current year eroded the Group's gross profit margin. Resulting from the substantial addition of highly sophisticated production machines since the second half of last year, the depreciation charges attributable to the manufacturing activity increased from about HK\$35 million in last year to about HK\$60 million in current year. Besides, the average purchase price of laminate increased by about 7% during the current year due to the continuous mismatch of global demand and supply for copper and glass fibre.

The Group's revenue for the first half of the current year and the second half of the current year was about HK\$459 million and about HK\$291 million respectively. After the proliferation of numerous models of mobile phone for almost two years, some of the Group's telecommunication product customers began to review their marketing and technical strategy in the summer of 2006. They tried to re-schedule the delivery time for some models of mobile phone in order to avoid the early erosion in their average selling price and to minimize their stock level. Besides, they commenced to gradually shift the technological requirement of HDI PCB for mobile phone towards a more advance level for which the Group was struggling during the current year. Hence, the Group's operating results for the second half of the current year was less satisfactory.

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Business Review *(Continued)*

In light of the forthcoming shift of technological requirement of HDI PCB for mobile phone by some of the Group's world-renowned telecommunication product customers, the Group has expedited its evolution towards becoming a more advance PCB manufacturer. With the effort of the Group's staff and the support rendered by Daisho Denshi Co., Ltd. which is one of the Company's substantial shareholders and also one of the top manufacturers of highly delicate PCB in Japan, the Group is now capable of manufacturing the more advance level of HDI PCB for mobile phone as required by these world-renowned telecommunication product customers. Although these customers are expected to finalize the formal approval of the Group in the supply of the more advance level of HDI PCB to them until the early of 2008, the Group could still continue to sharpen its edge in the manufacture of HDI PCB during the intervening period because the Group has developed some original design manufacturers of mobile phone in the Mainland China consuming HDI PCB with requirements no less inferior to those required by the Group's existing world-renowned telecommunication product customers.

Financial Review

The total capital expenditure incurred by the Group during the current year was about HK\$126 million out of which about 86% was incurred during the first half of the current year. They consisted mainly of highly sophisticated production machines acquired to cope with the foreseeable huge demand for HDI PCB. External finance lease facilities amounting to about HK\$50 million had been arranged to finance part of these capital expenditure during the current year while the balance of these capital expenditure was financed by the Group's internal resources.

The Group's gearing ratios (defined as the ratio of interest-bearing bank and other borrowings to total equity) at 31 March 2007 and 31 March 2006 were 0.20 times and 0.28 times respectively while the Group's current ratios at 31 March 2007 and 31 March 2006 were 1.54 times and 1.05 times respectively. These financial ratios improved substantially because the Group's PCB operations generated net cash inflow of about HK\$194 million during the current year.

As at 31 March 2007, the Group's interest-bearing bank and other borrowings amounting to HK\$75,779,000 (31 March 2006: HK\$66,425,000) out of which HK\$41,293,000 (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 totalling HK\$4,501,000 which were originally repayable within 3 months) and subjected to floating interest rates for about 91% (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 31 March 2007 of HK\$109,420,000 (31 March 2006: HK\$70,089,000) were pledged to secure these borrowings.

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Financial Review *(Continued)*

As at 31 March 2007, 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 31 March 2007 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 year to hedge against part of its operating expenses to be paid in RMB in light of the expected appreciation of RMB.

Employee Benefits

As at 31 March 2007, the Group had 1,505 (31 March 2006: 2,001) employees, including directors, working mainly in Mainland China. For the year ended 31 March 2007, the Group's total staff costs including directors' remuneration were HK\$48,800,000 (2006: HK\$39,197,000).

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.

The Company operates a share option scheme (the "Scheme") for the purpose of encouraging the eligible participants to perform their best in achieving the goals of the Company and at the same time allowing the eligible participants to enjoy the results of the Company attained through their effort and contribution. Eligible participants of the Scheme include (i) any full-time employees of the Company or any of its subsidiaries or associated companies; (ii) any directors (whether executive directors, non-executive directors or independent non-executive directors) of the Company or any of its subsidiaries or associated companies; and (iii) any consultants, technical, financial, legal or other professional advisers engaged by the Company or any of its subsidiaries or associated companies, provided that the Company's board of directors or a duly authorised committee may have absolute discretion to determine whether one falls within the categories. The Scheme became effective on 28 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook

The Board expects that the Group will not have significant breakthrough in operating performance during the first half of the financial year ending 31 March 2008 because some of the Group's world-renowned telecommunication product customers commenced to gradually shift the technological requirement of HDI PCB for mobile phone towards a more advance level and they are expected to finalize the formal approval of the Group in the supply of the more advance level of HDI PCB to them until the early of 2008. However, the Board is optimistic about the Group's operating performance during the second half of the financial year ending 31 March 2008 because of the following reasons.

Firstly, the Group is now capable of manufacturing the more advance level of HDI PCB for mobile phone as required by the Group's world-renowned telecommunication product customers. Given that the global sales of mobile phones for the year 2006 has reached over 1 billion units and HDI PCB of which there are not many capable manufacturers so far has become the main stream of PCB used for modern mobile phones nowadays, it is just a matter of time for the Group to increase its market share of HDI PCB.

Secondly, the unit selling price for the more advance level of HDI PCB for mobile phone is at least several times higher than that for the type of HDI PCB manufactured by the Group in the past due to the technical difficulties involved in the manufacture of the former. The production cost for the former, however, will increase by a lesser extent as compared to that for the latter. Given the same production volume, the sales value and the profit margins for manufacturing the former will be much higher than those for manufacturing the latter.

Thirdly, it is generally expected that the Chinese government will soon issue the third generation ("3G") telecommunication licences to the service operators before the Olympic Games in Beijing in August 2008. The provision of 3G telecommunication services in the Mainland China will boost the huge demand for 3G mobile phones there and will stimulate the demand for HDI PCB indirectly. The Group will definitely benefit as a result because it sells HDI PCB to not only world-renowned telecommunication products customers but also original design manufacturers for mobile phone in the Mainland China now.

Fourthly, the product applications of HDI PCB are not merely restricted to mobile phone. The Group has succeeded in dealing with a famous Japanese digital camera manufacturer who will place several millions of Hong Kong dollars' worth of monthly sales orders for HDI PCB with the Group from the last quarter of 2007 onwards. The Group is negotiating with other potential non-telecommunication product customers so as to broaden its customer base.

The Board recognizes the importance of sustainable development. The Group has embarked on various green manufacturing measures, ranging from the compliance of the European Union's directive on the Restriction of Hazardous Substances to adoption of energy-saving and water-recycling ideas. Being a responsible corporate citizen, the Group intends to contribute towards alleviating the magnitude of global warming on one hand and to achieve the reduction in the consumption of natural resources, which can lower the production cost on the other hand.