

Management Discussion and Analysis

Financial results

For the year ended 30th April, 2004, the Group's turnover was HK\$188,036,000 (2003: HK\$108,371,000), representing an increase of 74% in comparison with last year. The successful expansion in pro-audio products has mainly contributed to the increase in turnover in the year.

The Group's manufacturing operations continued to face testing conditions presented by adverse global economic conditions, including the upsurge of commodity prices around the world and economic setback following the outbreak of SARS in the first quarter of the financial year. The cost of raw materials such as copper, silicon steel and plastics had been on the rise at the beginning of the financial year. As a result the gross margin was narrowed. A gross profit of HK\$592,000 (2003: loss of HK\$15,138,000) was recorded for the year. The management made adjustments to minimize the adverse impact of such unfavourable environment and continues to control the administrative and overhead cost.

In February 2004, the Company entered into a placing agreement for the placing of 500,000,000 new ordinary shares of the Company to independent investors for a consideration of about HK\$11,000,000. The placement had enhanced the capital base of the Company. The net proceeds were used as working capital for the Group's business expansion.

Final dividend

The Board does not recommend the payment of any dividend (2003: Nil).

Business review

The turnover for electrical product recorded HK\$127,688,000 and is the largest revenue generator of the Group. It has increased by 233% compared to last year. The increase was due to the successful expansion of pro-audio products, switching power supplies, appliances and household products.

The turnover from adaptors and transformers was HK\$53,231,000 for the year. It remained steady when compared with last year performance of HK\$52,960,000. It comprises of traditional linear transformers, toroidal transformers and adaptors.

The other products consist of lighting products, mould and plastics businesses. The manufacture of lighting products was discontinued in view of keen competition from the PRC markets. Impairment loss was made on those assets with discontinued operation.

Prospects

The Group will take active steps to expand its market and look for new potential customers and investors. In the beginning of the year under review, the SARS outbreak in Hong Kong has led to a slow-down in economic activities as well as a massive deterioration in investment sentiment. However, the Group's determination to improve its financial position has not been wavered or impeded. Various cost saving measures were made to improve the operating results of the Group.

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New product development

The launch of the quality household products such as cordless sweepers has received good response from the market. The Group continues to develop new products in the coming year.

Liquidity and financial resources

The Group financed its operation with internally generated cash flow, banking facilities and through private placement. As at 30th April, 2004, it has bank and other borrowings of HK\$21,360,000 (2003: HK\$25,483,000). The Group's gearing ratio (total interest-bearing borrowings over shareholders' funds) was 132% (2003: 53%) and the current ratio (current assets over current liabilities) was 93% (2003: 121%). The drop in the current ratio was mainly due to a HK\$5,489,000 allowance for inventories.

Fixed deposits of HK\$3,031,000 (2003: HK\$4,819,000) were pledged to secure borrowing facilities granted to the Group.

The Group's transactions are mainly denominated in Hong Kong dollars and United States dollars. As Hong Kong dollars is pegged to United States dollars, the Group's exposure to exchange rate fluctuations is minimal.

In the process of finalization of this final results, it was discovered that certain covenants of a bank facility agreement of a subsidiary cannot be fulfilled. The covenants require the subsidiary to maintain a certain amount of tangible net worth. The Board will negotiate with the lender so as to reach a remedy solution to the covenants. In any event, the Board believes that adequate alternative sources of finance are available to ensure the future operations of the Group.

Subsequent to the balance sheet date, the Group has obtained a medium term loan facility from an independent third party to finance working capital.

Employees and remuneration policies

As at 30th April, 2004, the Group employed approximately 1,200 employees and workers in both Hong Kong and Mainland China. Remuneration policies are reviewed regularly and maintained at competitive level with the market. In addition to basic salary, discretionary bonuses, mandatory provident fund, medical insurance scheme and share options may also be granted to eligible employees which are at the discretion of the Board and are based on the performance of the individual employee as well as the Group.

Contingent liabilities

As at 30th April, 2004 the Company provided guarantees for bank loans in the amount of approximately HK\$19,524,000 (2003: HK\$23,536,000) in respect of the banking facilities granted to subsidiaries. The Group has no significant contingent liabilities at the balance sheet date.