Management Discussion and Analysis

Financial results

During the year ended 30 April 2006, due to the loss of orders from certain major customers, the turnover for the year was HK$33,661,000 (2005: HK$128,968,000) which represented a decrease of 74% as compared with last year. In addition, the deferment of materials supply due to the continuous tense supply of essential materials such as copper and silicon steel; and the decrease in production capacity due to the shortage of workers have caused tremendous pressure on turnover.

Price reduction under keen competition within rivals and narrowed margin under continuously drastic increase of essential raw materials led to the gross loss for the year at HK$17,573,000 (2005: HK$3,407,000) and the net loss for the year was escalated to HK$49,964,000 (2005: HK$39,752,000). The basic loss per share was HK$1.16 (2005: HK$2.10).

In June 2005, a rights issue on the basis of one rights share for one existing consolidated share held by shareholders on the register of members on May 2005 was allotted at an issue price HK$0.01 per rights share, resulting in the issue of 224,192,000 shares at HK$0.01 each for a total cash consideration before share issue expenses, of approximately HK$22,419,200. The proceeds were used for acquisition of machinery and testing equipment, procurement of materials, repayment of bank loans and borrowings from an independent third party of the Group; and general working capital purposes.

In March 2006, the Group had completed the fund raising by way of Open Offer of Convertible Bonds with aggregate principal value of HK$44,838,400, the proceeds were used for repayment of short-term borrowings from an independent third party of the Group and for general working capital purposes particularly for the purchase of raw materials and payment of overheads for the professional audio and musical instrument business.

In April 2006, the Group has disposed of an investment property for a consideration of HK$700,000; the proceeds were used for operation purpose.

Final dividend

The Board does not recommend the payment of any dividend (2005: Nil).

Business review

The turnover for electrical products recorded HK$12,149,000 and represented a decrease of 88% in comparison with last year. This resulted from the loss of orders from certain major customers.

The turnover for adaptors and transformers recorded HK$12,544,000 and represented a decrease of 45% in comparison with last year.

The other products consisted of manufacture and sale of plastics, moulding and electronic assembly services.

Management Discussion and Analysis

Prospects

With a disappointing result for the year, the Management has proactively started to restructure and reengineer the Group to cope with coming development and challenge.

The demand for manufacture of Pro-audio and music instrument increases consistently and continuously with the economic recovery, the management has grasped the opportunity and increased resource to explore the market. To strengthen the customer service and engineering support, a team comprised professions has been formed, the team members have over 10 years experience in the field and have well connection in the market. The Group has successfully entered into contract with two customers in the field and received positive feedback for high quality of the products.

In addition to the expansion of Pro-audio division, in view of the uptrend of major material prices for traditional liner adaptor business, the Group had recognized the potential market existed in switching mode adaptor business with the usage and application in mobile devices. The Group had entered into a co-development agreement with an independent third party for a tiny and compact switching mode adaptor. We obtained positive feedback from the market and to cope with the development, a Japanese profession in electronic field has joined the Group to enhance marketing and promoting of the product.

In view of economic growth in the PRC, the Group will continue to develop the PRC market.

The Group will continue to exercise stringent cost control and prudent financial policies in order to meet the challenges which face the Group. The management has confident to capture the growth opportunities available in the market.

Liquidity and financial resources

The Group financed its operation with internally generated cash flow, medium term loan facility from a major shareholder; and funding raising activities by rights issue and issuance of convertible bonds. As at 30 April 2006, the Group had current assets of approximately HK$28,916,000 (2005: HK$38,969,000) and current liabilities of approximately HK$20,247,000 (2005: HK$59,459,000). The Group's current ratio (current assets over current liabilities) was improved to 143% (2005: 66%) and the gearing ratio (total interest-bearing borrowings over shareholders' funds) was 8.76 times. The Group's transactions are mainly denominated in Hong Kong dollars and United States dollars. As Hong Kong dollars is pegged to United State dollars, the Group's exposure to exchange rate fluctuations is minimal.

Subsequent to the balance sheet date, the Group had been granted a banking facility in addition to the loan facility granted by a substantial shareholder to finance the Group's working capital requirement.

Management Discussion and Analysis

Employees and remuneration policies

As at 30 April 2006, the Group employed approximately 700 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 30 April 2006, the Company provided guarantees amounting to approximately HK$1,323,000 (2005: HK$2,877,000) to banks in respect of the banking facilities and finance lease arrangements granted to subsidiaries.