MANAGEMENT Discussion and Analysis

FINANCIAL PERFORMANCE

The Group has a well diversified and balanced customers portfolio. In the United States we have GPX, Emerson, RCA etc, in Europe we have Medion, TCM, Alba, Bush etc, in Japan we have Kenwood, Pioneer and Sanyo etc. Our overall turnover increased by approximately 30% this year and is not affected by the increase and decrease in demand of an individual customer. We successfully expanded our market shares as a result of better quality products and competitive pricing. Major products are still the CD and MD type products which account for more than 80% of the total turnover.

Pioneer Electronics in Japan has been our customers since 1998. After proving that we could meet and exceed their quality requirements, Pioneer has now contracted the Group to manufacture three new models for them. The three models, that have started manufacturing since February 2001, include DVD and MD products. Total turnover this year for the models will exceed HK$600 million.

The Group also secured a new customer from the United States for the manufacturing of Internet-DVD products, these are products capable of browsing the World Wide Web using television and of playing DVD disc. Manufacturing of the products has begun on July, 2001 and the forecast sale of the products is 500,000 sets per year.

These new products have a FOB price ranging from US$80 to US$170 and also provide a better margin. Accompany with the strong sales from the general CD and MD products, we expect to maintain a continuous increase in sales in the coming years.

RESEARCH AND DEVELOPMENT

Notice that the consumer electronics market has been migrating to the digital world, the Group has been spending a lot of resources in researching and developing new digital type products. Among these are DVD, CD-RW, MP3, digital satellite receivers and internet set-top box. DVD and MP3 products have commenced production since February 2001, internet set-top box has started production since April, 2001, digital satellite receivers and CD-RW will commence production in August, 2001. It is expected that turnover generated from the sales of these products will exceed 50% of the total turnover of the Group in the year 2002.

The many new models introduced in the second half of the financial year have caused a significant increase in research and development cost and pre-production cost etc. Consistent with the prudent practice of the Group in previous years, all the costs incurred before the launching of the new products have been written off in the profit and loss account.

MATERIALS SHORTAGE

The unusual shortage of IC and Ram has affected the profit margin of the Group this year, which has been decreased from 9.4% to 5.5%. Normally the Group will only order raw materials from suppliers after sales orders have been confirmed from customers. In this way profit margin can be determined and the Group is able to maintain a steady profit

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margin over the years. Due to the worldwide shortage of these components, we were unable to confirm some of the raw materials purchase orders when the sales were committed. This has resulted in loss when there was subsequent increase in the price of the raw materials. Recently demand for these components have dropped and the prices lowered as a result of increase in supply and slowdown in the world economy. In addition, we have taken measures to prevent the material shortage problems which include longer production planning schedule and direct coordination with component manufacturers. We do not expect the shortage problem to recur in future years and believe our usual margin could be recovered.

GROUP EXPANSION PLAN

To prepare for the future expansion, the Group commenced construction of a new factory building number 8 that was completed on July 2000. Another factory block number 9 was subsequently built and was completed on June 2001. These two blocks add additional factory area of approximately 400,000 square feet to the Group. Total production area of the Group now exceeds 1,500,000 square feet.

In order to further upgrade the manufacturing process, the Group has purchased additional sets of SMT (Surface Mounted Technology) machines and other automated insertion machines. All the machines have been arrived at the factory on May 2001. The factory now has 18 SMT machinery lines and 18 sets radial and axial automated insertion machines. These machines are capable of inserting electronic components into the chassis board at super high speed and with extreme accuracy.

In addition, the Group has committed to purchase 6 sets of heavy oil electricity generators in replacement for the diesel oil electricity generators. 4 of the 6 sets have been installed and used. Total investment for the generators amounted to approximately HK$50 million. As a result of using the heavy oil gensets, it is estimated that more than HK$10 million fuel cost could be saved each year. We have calculated that the payback period for the investment will be approximately 4 years.

The total capital expenditure and depreciation for the year amounted to approximately HK$134 million and 57 million as compared to HK$63 million and 45 million for last year.

As to the HK$120 million aggregate bank term loans obtained in year 2000 to finance the capital expenditure, HK$50 million were drawn during the year ended 31 March 2001. The internal funding of the Group is sufficient to pay off the capital expenditure at 31 March 2001, therefore the remaining HK$70 million term loans were drawn after the year ended 31 March 2001 in order to mitigate the interest expenses. As a result a large net current liabilities has arose as at 31 March 2001, the net current liabilities have been significantly reduced after the drawing of the remaining HK$70 million term loans after the year end.

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GROUP EXPANSION PLAN *(continued)*

We have estimated that with the increased production area and efficiency, the Group is now capable of handle sales of more than HK$5 billion. The consumer market will be changing rapidly in the next few years from selling mainly analog type products to digital type products. The Group is well prepared for the changes in terms of enhancing technical capability, automating manufacturing process and increase in factory capacity, we believe a fruitful return could be generated in the years ahead.

EMPLOYEE INFORMATION

As at 31 March 2001, total numbers of employees of the Group were approximately 140 in Hong Kong and approximately 10,500 in the PRC. Remuneration is commensurated with individual qualification and experience. Salary and wages are normally reviewed annually. Other benefits included provident fund scheme, medical insurance, performance bonus and share options.

B2B PLATFORM

Jointly with another three listed electronic products manufacturers, the Group launched its B2B platform "eglobalex.com" in April 2001. "eglobalex.com" provides an easy to use platform for suppliers to look for suitable purchase orders through the internet. "eglobalex.com" now has more than fifty members and the numbers are continually increasing. Further services will be added into the platform which includes payment gateway, logistic services, insurance, credit checking and quality assurance facilities among others. Total investment for "eglobalex.com" is less than HK$5 million and it is expected that eGlobalex could break even in its second year of operation.