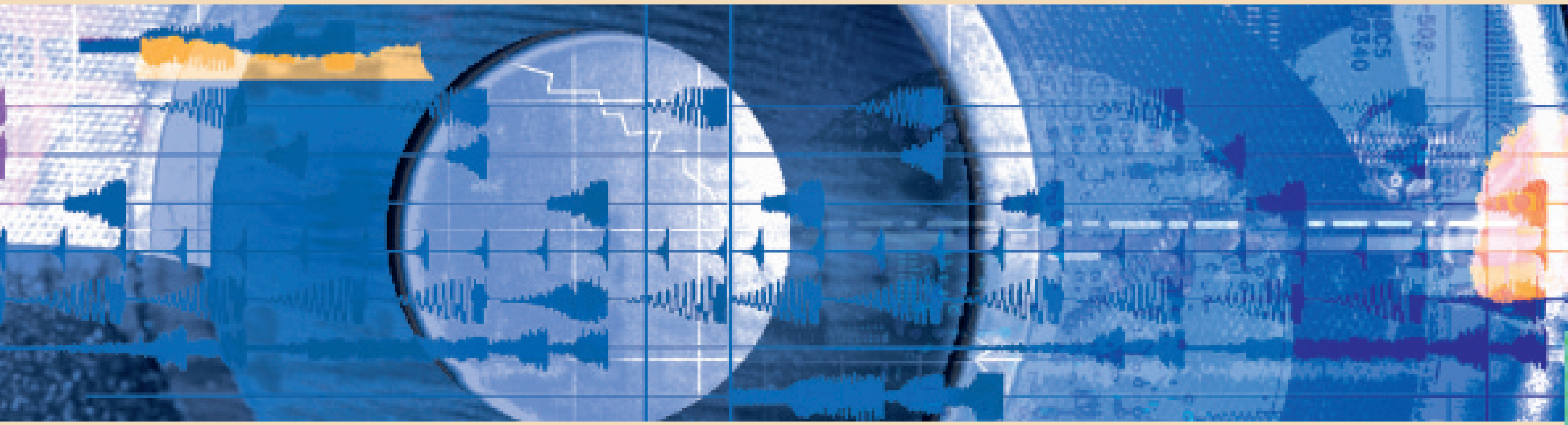
Chairman's Statement

strategies to take full advantage of the strong demand cycle in the data networking, telecommunications and power conversion markets is acceptable. The investment was simply a reflection of the Group's commitment to, as well as ability in, capturing the emerging business opportunities. With this upgraded production environment, the Group will soon be fully prepared to advance to a remarkably higher level of business pursuits.

Production Cost Management

During the past financial year, the Group continued to share the industry-wide problem resulting from the significant rise in petroleum price on a worldwide basis, leading to an adverse impact on our production cost. The Group experienced a mild drop in gross profit margin from 34.3% to 31.6% during the current financial year as a result of the increase in power generation cost for its manufacturing plant in Zhongshan.



The Group believes that continuous attention to production cost management is central to consistently strong earnings performance. This strategy continued to be the Group's game plan in the current year. While the unfavourable development in petroleum market has accounted for part of the drop in gross profit margin, the Group has, on the other hand, taken prompt actions to mitigate the impact on power generation cost by the installation of a new power conversion station for its factory in Zhongshan. Further, the commencement of self-production of tubular ceramic capacitors, which are one of the key parts of our products, near the end of the third quarter of the financial year has also begun saving the cost of parts and helped improve our gross profit margin since then.

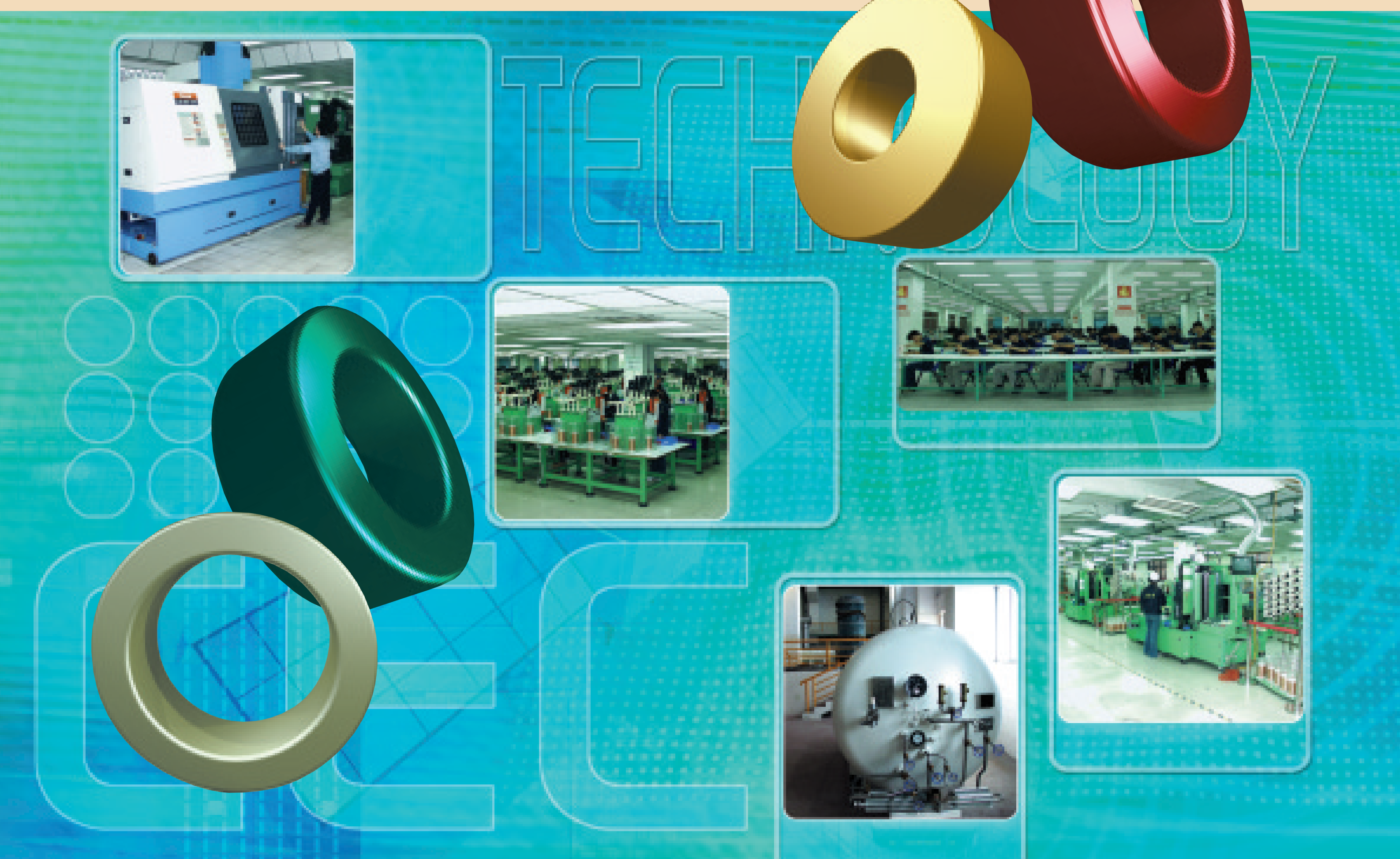
Sales Network Reinforcement

During the financial year, the Group equipped itself with an experienced sales and marketing arm for the trading of a wide range of electronic components. Capitalising on the strengthened marketing capabilities, the Group diversified the categories of non-mainstream products offered, built up stronger customer relationships and successfully gained the distribution right for various types of Samsung passive components such as chip capacitors, chip resistors, electrolytic capacitors and ceramic capacitors. The diversification initiative is expected to play an appreciable role in contributing to the Group's turnover growth.

On the other hand, in view of the generally weak business environment that began in late 2000, the Group has adopted a more cautious approach in conducting business. In particular, the Group applied a more stringent and prudent credit management policy. Despite a resultant downward pressure on turnover growth, the Group considered this to be necessary in order to minimise the risk of uncollectible credit sales. As such, the Group was able to maintain a low bad debt to turnover ratio of lower than 0.9% for the current year.

Enhancement in Capital Structure

On 3rd July, 2000, the Company issued 400,000,000 units of warrants at HK$0.0625 per unit of warrant through a private placement (the "Warrants"), resulting in net proceeds of approximately HK$22,891,000, after deduction of related issuance expenses of approximately HK$2,109,000. The Warrants carry the subscription rights of HK$1.475 for every 10 units of Warrants entitling the holders thereof to subscribe in cash for new shares in the Company up to a maximum aggregate amount of HK$59,000,000 at a subscription price of HK$0.59 per new share (subject to adjustment). The subscription price has been adjusted from HK$1.475 per new share to HK$0.59 per new share with effect from 18th August, 2000 as a result of the 2000 Bonus Share Issue. The Warrants are exercisable at any time from 3rd July, 2000 to 30th September, 2003, both dates inclusive. During the year under review, 23,750,000 new shares were allotted and issued as a result of the exercise of 95,000,000 units of subscription rights of the Warrants totalling HK$14,012,500, representing approximately 23.8% of the maximum number of new shares that would have been issued had all Warrants been exercised.



The net proceeds from the private placement of Warrants in July 2000 have been applied up to 30th April, 2001 as follows:

– Approximately HK$10,000,000 was used for repayment of bank loans.

– Approximately HK$2,000,000 was used for the development of e-commerce functionality for the Group's on-line sales systems and product specification simulation system.

– The balance of approximately HK$10,891,000 was applied as general working capital of the Group.

On 13th July, 2000, the Company announced a scrip dividend scheme, under which shareholders of the Company may elect to receive new fully paid shares in lieu of cash in respect of part or all of the final dividend of HK$0.05 per share (before adjusting for the 2000 Bonus Share Issue) for the year ended 30th April, 2000 (the "2000 Final Dividend"). Pursuant to the elections of the shareholders, a total of 4,277,108 new shares were issued at HK$1.778 per new share in lieu of cash in respect of the 2000 Final Dividend of approximately HK$7,605,000, representing approximately 76.1% of the total 2000 Final Dividend. The Directors considered the popularity of the scrip dividend scheme to be an indication of strong shareholders' confidence in the Group's future prospects.

Changes in Financial Resources and Gearing

As at 30th April, 2001, total borrowings amounted to approximately HK$255,558,000 (2000: HK$97,234,000), of which approximately HK$60,397,000 (2000: HK$37,678,000) was non-current and will be repayable within a period more than one year but not exceeding five years. Interest expense was levied on Hong Kong dollar prime or HIBOR basis with competitive margin. With the recent decreasing trend in interest rates, the Group is well positioned to capture future opportunities to save interest cost. Contingent liabilities were approximately HK$31,817,000 (2000: HK$32,118,000), represented mainly by factoring of trade receivables with recourse of approximately HK$30,415,000 (2000: HK$31,803,000).

Net gearing ratio, defined as total borrowings less pledged bank deposits over net tangible assets, was approximately 79.0% (2000: 27.5%). The substantial rise in net gearing ratio was largely attributable to the new long-term bank loans and new finance lease obligations of approximately HK$88,325,000 and HK$56,794,000, respectively, for the purpose of financing the capital expenditure of approximately HK$223,000,000 during the year under review in order to boost the Group's production infrastructure in Mainland China and Singapore.

Despite the increase in net gearing ratio, the Directors considered the Group's overall financial position to be healthy. Total cash and bank deposits increased to approximately HK$55,714,000 (2000: HK$49,643,000). As at 30th April, 2001, the Group's aggregate banking facilities increased to approximately HK$302,624,000 (2000: HK$199,896,000), of which approximately

HK$65,727,000 (2000: HK$95,090,000) was not yet utilised. The banking facilities were secured by mortgages over certain of the Group's land and buildings, pledges of bank deposits, inventories and machinery, as well as guarantees provided by the Company.

For the year under review, the Group has generated approximately HK$1,934,000 of net exchange gain, mainly arising from the depreciation of Japanese yen, in which part of the Group's purchases and capital expenditure were denominated. As the Group's sales and purchases were principally denominated in Hong Kong dollars, United States dollars and Renminbi, the Group considered its exchange rate risk to be minimal and adequately managed in this respect.

FUTURE PLANS AND PROSPECTS

Players in the electronics arena recognise that valleys follow peaks. Driven by the downturn in worldwide economy, the Group has been operating temporarily in a valley over the past half-year. However, it is also worth noting that neither valley nor peak lasts forever, though the duration of neither is predictable. The upside is that there is a growing sense of optimism that the bottom is near or was just past.

While the business environment in which we operated during the second half of the financial year was substantially more competitive and no longer as favourable as it was a year ago, we strongly believe that the Group's primary markets will continue to present attractive long-term growth opportunities well into the future. The Group's fundamental outlook, therefore, remains bright and promising in the coming financial year and beyond. This is mainly attributable to the Group's long-established adherence to persistent improvement, which positions the Group well on its way to generate more rewarding