

Chairman's Statement

results to the shareholders in the future. This is evidenced when we take an even closer look at the Group's prospects.

Preparation for Challenges and Opportunities

With the impending accession of China to the World Trade Organisation ("WTO"), economic globalisation will be an irresistible trend in the future. The development of a knowledge-based global economy as well as information and communication infrastructure to support the demand for international business applications will be gathering momentum and impetus again. In the market for electronic components, it is generally believed that the information and communication revolution and steadily increasing number of electronic features found in electrical and electronic appliances will continue to be a key growth-driver to the demand for electronic components.

The continual reduction in interest rates over the past few months is a very positive sign for the whole manufacturing industry and the electronics market in particular. The trend should induce the electronic and electrical appliance sectors to be re-positioned back on the right track to recovery and build ahead of anticipated demand. We also believe that the information technology and telecommunication market will resume to be a growth proposition, as the need to expand and upgrade information technology infrastructure remains an issue.

The Group is not going to be insulated from both the opportunities and challenges rapidly emerging in the electronics market arising from the above trend and development, because virtually all types of businesses realise that they simply cannot compete without up-to-the-minute information technology. We will insist on a proactive approach to operations that allows the Group to leverage the capabilities to achieve an even stronger market presence as a growing provider of quality electronic components.



PIXELS

M E M O R Y

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Under the foreseen tougher and more demanding business environment on the international dimension, the best our existing and potential customers can do is to continue to reduce costs, while keeping their product quality intact or even improving continuously. With this rising trend of cost consciousness and quality awareness in global electronics producers, we believe that there appear to be fresh signs of opportunities for the Group. Thanks to the Group's efficient and carefully planned production methodology throughout its history, our bright spot continues to be cost competitiveness in our quality end products. Additional cost-saving initiatives are currently under review. The fruit, hopefully, will be accompanying market penetration and market presence for the Group, which will be translated into substantially enriched customer base for the long-term. We continue to stay close to customers and their technologies so that when markets recover, we will be in the best position to grow and progress.

Once capital spending and consumption on networks and information technology equipment, consumer electronics and appliances recover, we believe the Group will resume promising annual growth rate, as appreciable business volume for such miniaturised components as chip inductors, toroidal transformers, line filters and EMI filters, etc., is expected to result. Our dedication to building a more powerful production environment in Zhongshan for the manufacture of those components will eventually pay dividend in the near future to come.



On the strategic cooperation front, we are also in a superb position to capitalise on the attractive opportunities to leverage the value-added services we provide to our customers as we validate the proposition that customer out-sourcing of additional production activities to us is a win-win situation.

Expansion of Product Line

Looking forward to the expected rebound in the electronics market in the coming financial year, the Group will push ahead to enrich its product line and better serve the electronics market by launching the production of miniature multi-layer chip inductors. This family of inductive components, being complementary to the existing series of wire-wound chip inductors by catering for the different self-resonant frequencies required in such electronic products as MP3 players, mobile phones, cable modems, broadband network equipment and computers, etc., is expected to further add on our competitive edge well into the future.

Sharp Focus on Research and Development

With the continual high-tech advances in electronic applications throughout the world,



the evolution of ferrite materials, being the core components of such electronic devices as inductors, line filters and EMI filters, etc., continues to play an indispensable role in sustaining those advances. The requirements for permeability and operating frequency of ferrite materials are becoming more and more demanding. The Group owed its dynamic growth in the past to its dedication in the research and development of ferrite powders and ferrite cores. Our capabilities and experience in refining the production technology of ferrite materials have enabled us to slash production cost successfully and enhance profitability throughout the Group's history.

In order to ensure that our technological and market strengths are maintained for the longer term, the Group will continue to intensify its efforts in the research and development of ferrite materials and make investments in people and technology in the coming year to accommodate the initiative. With the advancement in the Group's research and development facilities, the Group will be even more capable in breaking into new markets and will keep pursuing its strategy of constant innovation and strategic supply chain management, which will remain our twin pillars of success in the future.

Transparent Financial Reporting

The Group is a proponent of transparency and regular disclosure of reliable and comprehensive financial information to the general public. Our voluntary, timely and detailed quarterly reports and announcements will keep shareholders and the public informed of the latest progress of the Group's business performance faithfully and candidly in the future, in order to justify the continual and invaluable trust and support from our shareholders and the public.

APPRECIATION

In closing, the Group's dedicated employees deserve our thanks for effectively executing on our strategies. On behalf of the Board of Directors, I would like to take this opportunity to sincerely appreciate the extra effort on the part of the Group's employees to help us manage through the challenging market conditions and position us well to capture the promising market opportunities we see in the future. I would also like to express appreciation to our customers, suppliers and business associates for their continual support throughout the year.

By Order of the Board

Lam Wai Chun

Chairman

Hong Kong, 31st July, 2001