

The period under review was one of steady progress for MAE Holdings Limited ("the Company") and its subsidiaries ("the Group") in a difficult environment. Hong Kong's economy is still in the early stages of a weak recovery after a deep and prolonged slump caused by Asian turmoil. This has capped local demand, while the global economic slowdown, is keeping downward pressure on product prices and on profit margins. Externally, the outlook is also mixed. We expect the U.S. economy to rebound later this year or early next year. The European economy is still far from robust, which is capping demand and profit margins in Europe, traditionally another strong market for the Group.

Despite the tough operating conditions, the Group made steady progress and recorded turnover of HK\$332 million in the year to April 30, 2001 (2000: HK\$344 million). The Group posted a loss from operating activities of HK\$81 million (2000: profit of HK\$9 million) and a net loss from ordinary activities attributable to shareholders of HK\$85 million in 2001 (2000: profit of HK\$4 million). It is mainly due to the provisions for long term investments of HK\$38 million and goodwill reserve written off of HK\$45 million as a result of the downturn of the Internet related industry. Apart from the investments provisions, our core business notched up steady growth despite the sluggish economic environment. The Group was able to maintain HK\$2 million profit from operating activities before the long term investments provisions and goodwill reserve written off, underpinned by a stable customer base and by the Group's cost-cutting and efficiency gains, which enhanced its productivity.

Final dividend

The Board of Directors does not recommend a final dividend (2000: nil final dividend). The Company did not pay an interim dividend (2000: nil interim dividend).

Business review

The Group manufactures adapters and transformers, toroidal transformers, power transformers, coils, switching power supply, cellular phone chargers, electrical and Original Equipment Manufacture (OEM) products. Its electrical products include vacuum cleaners, bathroom cleaning devices, professional musical instruments and electro-mechanical automobile accessories. In this year, the Group has enjoyed a break-through in our traditional adapters and transformers product range through the successful launch of our high-tech musical devices.



During the period under review, the performance of the Group's flagship products was satisfactory. The manufacture and sale of EI transformers and adapters remain the major revenue contributor of the Group, which contribute to 54% of total turnover.

The Group's toroidal transformer division was able to maintain a similar result compared to the previous year. This reflects the customers' loyalty show to our quality products.



Chairman's Statement

The sales performance of our electrical products sector grew more than 75% compared with that of previous year to become the second largest revenue generator of the Group. The main growth came from increased sales of vacuum cleaners, dust cleaners, battery chargers and professional musical instruments products. This encouraging result was attributable to the balanced product portfolio philosophy of the Group.

The Group has been successful in developing new products to widen its revenue base, and has noted particularly strong demand for its new professional musical instruments products. The new products range from audio mixers, sound reinforcement equipment and related products for use in music halls, studios, discotheques, nightclubs and karaoke parlours. These have good prospects for expansion in the North American market and are also expected to penetrate the People's Republic of China (the "PRC") market successfully, where our new line-up is already getting good repeat business from customers specialising in professional mixing equipment and digital music. Demand should surge further after the U.S. economy turns around. The Group is also deepening its involvement in manufacturing OEM components for a leading Europe-based global supplier of electro-mechanical accessories for automobile assembly lines.



The Group has invested in research and development ("R&D") for its switching power supply products to meet growing demand in the personal computer and telecommunication product markets. It is leading the race to produce more energy-efficient devices. The Group is focusing on building devices that are smaller, lighter and greener, in line with our commitment to the environmental protection. Our R&D spending will lead to new array of new precision electronic products in future.

Globalisation and enhanced customer relationships are cornerstones of the Group's marketing strategy. Europe, North America, the PRC and Japan are the main markets of the Group. During the year, the Japanese market enjoyed particularly strong growth of 26% due to increase in customer demand. The Group will continue to explore existing and new markets. To enhance customer relationships, the Group also provides tailored marketing, engineering and logistics services.

The downturn of the Internet related industry has adversely affected the Group's performance. Provisions for long term investments and goodwill reserve written off were made to reflect the change in market environment. The Group acquired a 12.5% interest in Skynet Limited ("Skynet"), which has interests in such websites as "hkstock.com", "hkcyber.com" and "gameplayers.com.hk", in December 1999 and our shareholding in Skynet was substantially diluted to less than 0.1% as at this report date. The Group sought legal advice about the transactions that led to this dilution, and prudently made a provision.

The Group announced the acquisition of a 40% interest in HK Sky Home Limited ("Sky Home") in May 2000, targeting the online market for such merchandise as baby products, household electrical appliances and other household consumer products. While online sales have so far been moderate, Sky Home will divert its business into the vast PRC consumer market after its entry into the World Trade Organisation (WTO).

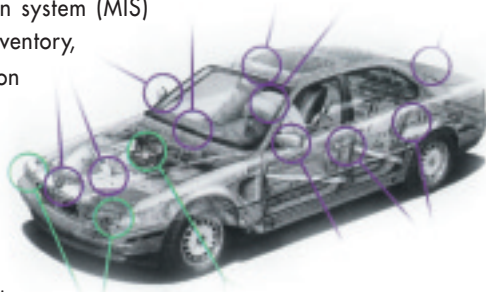
In September 2000, the Group formed a joint venture through subscribing for 50% of the shares in Pacific Pearl Holdings Limited ("PPHL") that is the holding company of a group of companies which businesses are to provide financial services in connection with trading securities and futures. However, in view of the contraction in the local stock and futures markets, the Group subsequently withdrew from this investment in 2001.

Prospects

The Group will consolidate on its core manufacturing business and plans to continue investing in R&D to maintain its competitive edge in its three key products: adapters and transformers, electrical products and OEM products. It will focus on increasing market share in each of these businesses, while diversifying its product lines. It will expand its professional musical instruments production capacity and make OEM products for a leading Europe-based global supplier of electro-mechanical accessories for automobile assembly lines. The Group plans to leverage its relationship with the European supplier to help it develop products for the PRC market. The Group envisages steady expansion into both the PRC professional musical instrument market and the automobile accessories market.

The Group plans to intensify penetration of the North America, PRC and Japan markets are well underway due to its investment in state-of-the-art new management information system (MIS) technology. The new MIS technology enables precise control of inventory, receivables and means individual factories can swiftly lift production in response to reviving global demand.

China's impending entry into the WTO will be a major boost for the Group, bringing benefits in the form of a massive widening in its customer base and increased demand. The Group set up a wholly foreign owned enterprise in the PRC in 1999, which will serve as a springboard for expansion into the huge mainland domestic market. We believe our management experience, knowledge of the Chinese market and R&D strength leave us well positioned to benefit from China's WTO entry. We also believe that our professional musical instruments range, which is already carved out a niche in the North American market, will also find ready acceptance in the PRC.



Conclusion

To conclude, the Group will consolidate its core businesses and maintain stability in advancement. On behalf of the Board, I would like to take this opportunity to express my appreciation to the support of shareholders, suppliers, customers and staff.

By order of the Board

Lo Wai Shing, Felix
Chairman

Hong Kong, 24 August 2001