

BUSINESS REVIEW AND OUTLOOK

During the six months ended 30 September 2001 (the "Period"), the Group continued to engage in the manufacturing of production lines and production equipment industry with principal market in Hong Kong and PRC. Due to the downward trend of worldwide economy, the Group's unaudited turnover was approximately HK\$219 million for the Period (2000: HK\$260 million), representing a decrease of approximately 16% compared with the same period last year and unaudited net profit from ordinary activities attributable to shareholders was approximately HK\$26 million for the period (2000: HK\$36 million), representing a decrease of approximately 28% compared with the same period of last year.

During the period, the global economic downturn and the "911" terrorist attack has undermined the investment sentiment in general. As a result, the Group's core business of production equipment for electronic products recorded lower sales due to weakened demand. In view of the uncertain economic outlook, the Group has taken various measures for consolidation and reallocated resources in a bid to raise efficiency and lower costs.

In August, Suneast Electronics Development (Shenzhen) Co., Ltd. was recognised by Shenzhen Municipal Government as a new and high technology enterprise (United Code: S2001048). Accordingly, in addition to the preferential treatment of tax exemption in the first two years and half tax rates in the following eight years, the company is entitled to receive additional resources from Shenzhen Municipal Government. This demonstrates the Group's achievement in new product development and reflects its status in the PRC market. The Group will continue to drive forward in the field of advanced technology.

The Group succeeded in the development of unlead soldering equipment which was well received by the market and is believed to contribute positively to the environment and the future health of the mankind. With the rapid growth of the electronics industry, disposed electronic products have been increasing every year. Almost all the solder used in the soldering process contains lead, which will contaminate underground water and soil. Environmental pollution has raised the concern of people in recent years, particularly in developed countries. One example is the European Commission has decided that by January 2004 the electronics industry across Europe will be prohibited to use solder that contains lead. By 2004, the Europe and the U.S. will introduce processes that use unlead solder paste. Now many companies are required to use materials and technologies that are environmentally friendly when they apply for the ISO14000 accreditation, so a number of international electrical appliances manufacturers such as Matsushita and Pioneer has expressed interests in our product and Pioneer has even made orders for this product.

Although producers' attitudes towards investment were adversely affected by the global economic slowdown, manufacturers in the PRC are expected to have eager demand for sophisticated and advanced production equipment for electronic products as local manufacturers strive to increase competitive power and match the international standard and foreign investors enter the market following the PRC's accession to the WTO. The Group believes that when the economy recovers in mid 2002, the business of production equipment for electronic products will generate substantial returns.

In respect of logistics operation, the management will deploy more resources in pursuance of a leading position in the PRC market.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity

As at 30 September 2001, the Group had net current assets of HK\$106 million (31 March 2001: HK\$136 million), mainly comprising prepayments, deposits and other receivables of approximately HK\$2 million (31 March 2001: HK\$5 million), inventories of approximately HK\$65 million (31 March 2001: HK\$50 million) and trade receivables of the approximately HK\$52 million (31 March 2001: HK\$78 million) and current liabilities of approximately HK\$123 million (31 March 2001: HK\$99 million). The current ratio decreased from approximately 2.4 as at 31 March 2001 to approximately 1.8 as at 30 September 2001.

At 30 September 2001, the Group had total assets of approximately HK\$377 million (31 March 2001: HK\$337 million) and total liabilities of approximately HK\$128 million (31 March 2001: HK\$102 million). The gearing ratio calculated as a percentage of long term debt to equity was 0.74% (31 March 2001: 0.05%).

Financial Resources

At 30 September 2001, the Group had floating interest-bearing bank borrowings of approximately HK\$23 million (31 March 2001: HK\$9 million), of which HK\$14 million were denominated in Renminbi and HK\$9 million in Hong Kong dollars. The Group's bank borrowings are all repayable within one year. At 30 September 2001, the Group's bank borrowings were secured by (i) first legal charges on certain of the Group's leasehold land and buildings and investment properties located in Hong Kong; (ii) pledged bank deposits of HK\$5 million; (iii) second legal charges on properties located in Hong Kong of a related company; (iv) a second legal charge on a property located in Hong Kong of a director; (v) deposits of a director amounting to HK\$4.7 million.