



I have pleasure to present the annual report of Yanion International Holdings Limited for the year ended 31 December 2000.

RESULTS AND DIVIDENDS

The audited net loss from ordinary activities attributable to shareholders for the year amounted to HK\$43,714,000. Loss per share was 31.9 cents. The directors do not recommend the payment of any dividends for the year ended 31 December 2000.

REVIEW OF OPERATION

The turnover of the Group for the year 2000 was HK\$288,913,000, a decrease of 11% compared with that of 1999. Net loss from ordinary activities attributable to shareholders was HK\$43,714,000. Turnover was mainly derived from the sales of CD and VCD player mechanisms, compact disc players, video CD players, amplifiers, and other hi-fi products was HK\$114,746,000, and accounted for 40% of the turnover (1999: HK\$123,777,000 and 38%). Sales of cassette deck mechanisms, car audio mechanisms, precision spring, precision metal and plastic tools and various types of precise spare parts was HK\$111,320,000, and accounted for 38% of the turnover (1999: HK\$107,357,000 and 33%). As to other non-audio products, sales of several personal office appliances, such as paper shredders and its components, was HK\$62,847,000, and accounted for 22% of the turnover (1999: HK\$94,817,000 and 29%).

In 2000, the Group continued to adopt several control measures for minimizing its cost. They are: (a) selling and distribution costs reduced by HK\$5,216,000, (b) administrative expenses reduced by HK\$1,137,000, (c) other operating expenses reduced by HK\$2,708,000, and (d) finance costs reduced by HK\$914,000. However, loss was incurred in the Group's manufacturing operation as average selling prices and profit margin continued to decrease. This was attributable to strong US dollars in the past, increasing prices for production materials, and continuous declining selling prices for electronics products and spare parts due to keen competition.

Sales of the Group in Europe, America, Hong Kong and other Asian market were 21%, 23%, 29% and 27%, respectively. (1999: 14%, 24%, 25% and 37%, respectively).

During the year, the Group acquired a 10% interest in Global Cyber Limited ("Global Cyber") for HK\$80,000,000 as a long-term investment. As at the end of 2000, the non-current assets of the Group was HK\$161,317,000, an increase of HK\$51,477,000 compared with that of last year. During the year, the Group disposed of a subsidiary that held the land use right of a piece of land in the PRC for industrial and commercial purpose. The consideration for the transaction was HK\$12,000,000.

Chairman's Statement (continued)

As to the current assets, inventory of the Group's manufacturing operation reduced by HK\$19,849,000 to HK\$49,833,000. Save as certain pledged time deposits of HK\$13,370,000, cash and cash equivalents of the Group was HK\$27,654,000, which was increased by about HK\$18,836,000 compared to last year. As to the current liabilities, the account payable of the Group was HK\$39,047,000, which was decreased by HK\$10,317,000. Interest bearing bank loans and other borrowings was HK\$33,825,000, which was decreased by HK\$3,173,000. Net current asset value was HK\$28,876,000, which was increased by about HK\$9,000,000. The non-current liabilities of the Group was HK\$966,000, and the overall gearing ratio, that is total liabilities to shareholder's equity, was about 54%. As at the end of 2000, the net tangible assets value of the Group was HK\$187,441,000, which was increased by 48% or approximately HK\$60,000,000.

Due to a number of unfavorable factors, the manufacturing operation has been unsatisfactory for the past three years. The Board decided to restructure its original business operation, and to expand the Group into one with a more diversified investment portfolio and earnings base. This would be achieved through additional acquisition of existing investment and potential projects that are of high market penetration rate, growth rate, and return rate, or exposed to risk but with potential, thereby capitalizing on the opportunities arising from the information technology and bio-tech sectors in the twenty-first century. However, the Group will only conduct the principle of carrying business that it is familiar with. In order to achieve these aforementioned goals, the Group will from time to time engage well-known outstanding experts in the relevant industry, and rely on their expertise to identify, analyze, select, appraise, evaluate, and manage projects with growth potentials, and will only invest in such projects when it is appropriate.

As such, in November 2000, the Group invited several experts as new members to join the Board, and does not preclude the opportunity to further engage experts and management expertise from industries that the Group is interested in. However, the Board shall only do so to strengthen its overall planning capability and broaden its horizon for new business ventures. To conclude, the Board will dedicate itself to identify investment projects that are of high market penetration rate, growth rate, and return rate, or exposed to risk but with potential, so as to maximize the return for shareholders.

PROSPECTS

In order to facilitate the business restructuring of the Group and to acquire new projects with high growth potentials, the Group conducted several fund raising exercises in the capital market during the year. It is in the best interest of the Company to raise further capital from the equity market by way of the placing in order to enhance the capital base of the Company as well as to strengthen the cash flow of the Company.

Chairman's Statement (continued)

During the period from June 2000 to February 2001, the Group has successfully completed a series of placing exercises and raised approximately HK\$134.8 million, details are summarized as follows:

Date of announcement	Number of shares placed	Net proceeds	Usage
12 June 2000	90 million	HK\$80.0 million	Acquisition of a 10% interest in Global Cyber. The principal activities of the company and its subsidiaries are research and development and installation of video-on-demand system in the PRC.
6 December 2000	38 million	HK\$24.3 million	General working capital to finance the daily operation of the Company and its subsidiaries.
7 February 2001	45.6 million	HK\$30.5 million	Acquisition of a 90% interest in a Internet phone company.

On 14th March 2001, the Group announced the placing of 200,000,000 new shares and would raise net proceeds of about HK\$247,000,000. According to the placing agreement, placing will be completed on or before 31st May 2001. The net tangible asset value of the Group will be increased to HK\$479 million upon the completion of the Placing. The net proceeds will be used to: (i) approximately HK\$180 million for business expansion and acquisition of growth oriented projects to diversify the earnings base of the Company; and (ii) the balance of approximately HK\$67,000,000 used as general working capital for the Company and its subsidiaries, and to finance the daily operation of those growth oriented projects to be acquired.



Up to now, the Group invested in a number of projects as follows:

1. Video-on-demand ("VOD") system and re-engineering of the cable TV companies

The video-on-demand system is an investment in re-engineering of the cable TV companies in PRC. In fact, the Group acquired a total of 14% interest in Global Cyber from the two acquisitions in August 2000 and March 2001, and indirectly invested in Shanghai Dazheng Worldvest Technology Company Limited, which is principally engaged in research and development and implementation of the video-on-demand system in the PRC, which involved in the re-engineering of the cable TV companies in the PRC by employing related operating software, servers and set-top boxes. This system will enable the transmission of data between the cable TV companies and their household users by using the existing HFC network. Programs to be delivered through this interactive video-on-demand system include karaoke music TV, distant learning programs, movies-on-demand, stock trading and e-commerce. With the recognition achieved in the market, its VOD customers will increase rapidly. Since there are about 100 million cable TV subscribers in the PRC, the project will have enormous development potential. The Group will continue to identify potential strategic partners for content provider and supply of well-known programs around the world to provide PAY-TV programs to thousands of cable TV companies in the PRC. Up to now, the Group has received encouraging response from leading music and entertainment companies in the world. A successful partnership to be formed between such potential partners and the Group will bring an additional source of revenue, and in turn will be beneficial to the long-term development of the Group.

2. Internet phone

In February 2001, the Group successfully acquired a 90% interest in a sino-foreign enterprise, and the business of which is mainly sales of Internet phone in the PRC by way of agency. As the telecommunications market in the PRC is not opened up yet, the transaction tapped the telecommunications and Internet market in the PRC for the Group. The business model of the company is to distribute Internet phone and prepaid Internet phone cards in the PRC. The enterprise has well established a sizeable distribution network in the PRC to cover all major cities, such as Beijing, Tianjin, and Shanghai etc. The enterprise will bring positive benefits to the Group in the long-term.



Chairman's Statement (continued)

The Internet phone is comprised of integrated circuits, modem and sound card. It transforms the analog voice messages into digital signals that are transmitted through the Internet. It is considered as a cheap, convenient and efficient communication item. As the PRC will soon be admitted into the World Trade Organization, overseas investment will be attracted to the newly open PRC market. Whilst the number of computer and Internet users in the PRC are rapidly expanding, sales of Internet phones and usage of prepaid Internet phone cards will be expected to increase substantially and, will bring long term and reasonable return to the Group in future.

3. Bio-tech projects

It is inevitable for most of the developed countries around the world to commit in the development of bio-tech projects. The Group is now considering to invest in certain interests in bio-tech projects, and the Board will later announce such investment in details upon finalization.

As the PRC will soon be admitted into the World Trade Organization, it is expected that there will be plenty of business opportunities. The Group has established an Investment Steering Committee, which will directly report to the Board. The committee will objectively consider and evaluate all potential high growth projects, with an aim to diversify the Group's investment portfolios and strengthen its earnings base.

ACKNOWLEDGEMENT

The Directors wish to express their sincere thanks to the bankers, customers, suppliers and all parties in the society for their support and to all staff of the Group for their hard work during the year.

Leung Wah Chai

Chairman

Hong Kong

17 April 2001