

## PRESIDENT'S STATEMENT AND REVIEW OF OPERATIONS

I am pleased to present the results of the Group for the year ended 31 December 2000.

### Results

For the year 2000, profit attributable to shareholders was HK\$406 million, an increase of 108% compared to that of 1999.

Your board of directors has recommended a final dividend for year 2000 of HK\$0.20 per share which, together with the interim dividend of HK\$0.12 per share paid on 5 October 2000, results in a total distribution for the year of HK\$0.32 per share, an increase of 78% over the total dividend of HK\$0.18 per share for 1999.

### Review of operations

Year 2000 was an exciting year for the Group. The major events of the Group included the following:

1. The Magnetic Media Division, through Lafe Technology Limited ("Lafe"), was successfully listed on the Singapore Exchange Securities Trading Limited in April, 2000. Approximately HK\$700 million was raised for the Group.
2. The Group disposed of 500 million shares in O2New Technology Limited ("O2New" and formerly known as Toyo Holdings Limited), on 30 May 2000 and reduced its holding in O2New to 36%. The Company further disposed of 300 million shares and 800 million shares in O2New on 4 September 2000 and 3 November 2000, respectively. The Group currently holds less than 5% of O2New.
3. The Group, through its wholly owned subsidiary, Tomei Technologies Limited ("Tomei"), entered into an agreement on 2 April 2000 with O2New under which Tomei would acquire from O2New the entire issued share capital of Tomei International (BVI) Limited, a wholly owned subsidiary of O2New, for consideration of HK\$181,429,000. Tomei International (BVI) Limited owns the O2New group's manufacturing business of consumer electronic products. This transaction was approved by the independent shareholders of O2New at a Special General Meeting held on 23 May 2000 and was completed in June 2000.
4. In July 2000, the Group subscribed for 206,735,139 shares during a rights issue of Capetronic International (Thailand) Public Company Limited ("CITL"), the main operating unit of the computer monitor group. Through such subscription, the Group increased its holding in CITL from 16.7% to 50.8% and CITL then became a subsidiary of the Group. Through various subsequent acquisition of shares and subscription at a second rights issue, the Group increased its holding in CITL further to 81.7% as at 31 December 2000. The Group injected a total of approximately HK\$164 million of additional capital into CITL to strengthen its capital base and improved its financial position significantly.
5. On 30 March 2000, Barrican Investments Corporation ("BIC"), the controlling shareholder of the Company, placed 26 million shares of the Company at HK\$4.25 per share to certain independent investors. Subsequent to the placement, BIC's interest in the Company was reduced from 74.9% to 64.9%. On 30 March 2000,



## PRESIDENT'S STATEMENT AND REVIEW OF OPERATIONS

the Company entered into two subscription agreements with BIC, pursuant to which BIC would subscribe for a total of 103,562,457 new shares of the Company at HK\$4.25 each. The first subscription was completed on 3 April 2000 and the shares under which was issued under a general mandate granted to the directors in the 1999 Annual General Meeting; whereas the second subscription was approved by independent shareholders of the Company at a Special General Meeting held on 23 May 2000. Upon completion of the subscriptions by BIC, the Company's capital base was increased by approximately HK\$438 million and BIC's shareholding in the Company was restored to 74.9%.

6. In November 1999, the Group participated through O2New, a then subsidiary of the Group, in the attempted rescue and restructuring of Akai Holdings Limited and its subsidiaries ("the Akai Group"). As at 31 December 1999, the Company, through its subsidiary, had advanced an aggregated amount of HK\$238 million to O2New to finance a loan advanced to the Akai Group. During the year 2000, additional advances were made to O2New which in turn advanced the funds to the Akai Group. On 23 August 2000, an order was issued by the High Court of the Hong Kong Special Administrative Region for the compulsory winding up of Akai Holdings Limited and its associate, Kong Wah Holdings Limited. As at 31 December 2000, the advance receivable from O2New for the Akai rescue amounted to HK\$425 million.
7. In August 2000, the Group obtained all necessary approvals from the relevant government authorities in the PRC to subscribe for new capital in Zhongshan Kawa Electronic (Group) Company Limited and its affiliated companies (collectively known as the "Kawa Group"). This capital injection was made at the request of the Zhongshan local authority as part of the concerted efforts to rescue the Kawa Group which was in financial difficulty. As a result of the subscription, the Group will inject a total of approximately HK\$284 million into the Kawa Group to obtain a 50.1% shareholding in each and every joint venture company within the Kawa Group. Through this subscription, the Group acquired a very substantial production facility in Zhongshan of the PRC and significantly improved the production capacity of the Group's Electronics Manufacturing Services Division.
8. The Group completed the underwriting of the rights issue of Ross Group PLC ("Ross"), whose shares are listed on the London Stock Exchange, in April 2000. The Group injected a total of approximately HK\$18.8 million into Ross resulting in the Group holding 43% of the issued capital of Ross. The Group subsequently acquired additional shares and increased its holding to 48% as at 31 December 2000. Ross is primarily involved in the manufacture and distribution of electronic products as well as provision of technical and engineering services.

The changes during the year 2000 in the proportionate ownership of the Group's holdings in several subsidiaries, as outlined in more detail above, were the major factors contributing to the 44% increase in turnover from HK\$5.7 billion for 1999 to HK\$8.3 billion for the year 2000. The gross profit from operating activities for the year 2000 was HK\$954 million as compared to HK\$1,017 million for 1999.

The above events form part of the Group's long term plan to strengthen its competitiveness in the various business sectors that the Group operates. The core divisions of the Group now comprise of (i) The Magnetic Media Division, (ii) The Electronics Manufacturing Services Division, (iii) The Branded Distribution Division, and (iv) The Corporate Finance and Investment Division.

## PRESIDENT'S STATEMENT AND REVIEW OF OPERATIONS

The Group continued to restructure and streamline the operations of its Electronics Manufacturing Services Division during the year and in particular the computer monitor manufacturing operation. The Branded Distribution Division successfully established a worldwide network of distributors and dealers to market and promote the Nakamichi brand. The division also launched several new and exciting products in the second half of 2000 and now offers a full range of stylish lifestyle products.

### Prospects

#### **The Magnetic Media Division**

Lafe commenced production of the new Super Digital Linear Tape ("DLT") Ferrite Heads and Data Control Module ("DCM") in early 2001. Lafe also developed various new Magneto-Resistive ("MR") Tape Heads for new customers. Production of these new products will commence in the second and third quarters of 2001. The sales of new MR Tape Head products is expected to contribute positively to the overall sales of Lafe in the second half of 2001.

Lafe is planning to commence production of new Magneto Optical ("MO") drives for its new strategic business partner in this growing market in the second half of 2001. This move will enable Lafe to expand into the high-end optical drive and data storage sub-system markets. Lafe will continue to strengthen the development of its leading MR tape head, optical data storage and communication products. The growth of these market sectors is expected to bring in new business opportunities to Lafe in the future.

#### **Electronics Manufacturing Services Division**

Tomei specializes in the production and sales of consumer electronic products.

Tomei acquired substantial additional production facilities in the PRC through its investment in the Kawa Group and has ventured into the production of new consumer electronic products and components such as DVD players, CD Rom drives, optical pickups, CD mechanism, speaker drives and transformers. Tomei has also been successful in expanding its customer base to include many well-known consumer electronic giants in Japan and Korea. Tomei is also participating in domestic sales of consumer electronic products through the Kawa Group in the PRC, including colour televisions, CD players, VCD and DVD players.

CITL focuses mainly on the production and sales of computer monitors.

CITL reported significant losses in the first half year of 2000 as a result of worldwide excess capacities and continuous price erosion in the computer monitor market. The worldwide shortage in electronic components during year 2000 further compounded the losses. CITL went through a major restructuring of its operation and business in the second half of 2000 and the unprofitable Shadow Mask monitor business was terminated. From 2001, CITL will focus on the production of Trinitron monitors for its principal customers.

CITL will continue with its efforts in manufacturing efficiency improvements, material cost control and reduction of overheads to improve cost competitiveness. CITL has been recapitalised through the rights issue exercises and its financial position has been significantly improved. This will enable CITL to accord more resources to focus on the development of new products to meet the future challenges of the industry.

# PRESIDENT'S STATEMENT AND REVIEW OF OPERATIONS

## **Branded Distribution Division**

This Division made significant progress in year 2000 with the introduction of a full range of lifestyle high-end audio and visual systems. The Division has also established a strong worldwide network of distributors and dealers to promote and sell the Nakamichi products.

Capetronic Consumer Electronic Holdings Berhad ("CCE" and to be renamed Nakamichi Corporation Berhad), the manufacturing arm of this Division in Malaysia, has been appointed the sole manufacturer of all Nakamichi products. During the year 2000, CCE underwent a major reorganisation to upgrade its facilities and the quality of its production staff to cater for the higher requirements of the Nakamichi products. This exercise was successfully completed at the end of year 2000 and CCE has now been fully transformed to meet the high standards that the Nakamichi brand demands.

Nakamichi Corporation in Japan will concentrate on the research and development of new technologies and products for this Division. New concepts and products will be introduced to the market progressively, including Plasma televisions and audio products employing the newest digital technologies.

In order to coordinate the research and development efforts, production planning and worldwide distribution of the products, the Division has established a worldwide logistic center in Singapore. As a result, worldwide distribution efforts and inventories could be more efficiently managed and better controlled.

The Division has moved into direct distribution and so far three Nakamichi shops have been established in Hong Kong. This effort will be extended to other parts of the world and it is anticipated that more Nakamichi shops with a consistent brand image and design will be established in the major cities in North America and Europe. This effort will greatly enhance the Nakamichi brand worldwide.

## **Corporate Finance and Investment Division**

This Division successfully listed Life in Singapore in April 2000 and divested the Group's investment in O2New during year 2000. These corporate exercises generated significant profit contribution to the Group.

## **Appreciation**

I would like to extend my appreciation to the management and the staff of the Group for their dedication, loyalty and commitment. I would also like to thank our shareholders, customers, suppliers and business associates for their continuing support and confidence in the Group.

**Christopher W. Ho**

*President and Group Chief Executive*

Hong Kong, 26 April 2001