Wu Shaozhang
Chairman

Wong Kwok Wing
Vice Chairman

Message from Chief Executive Officer

BUSINESS REVIEW

In retrospect, the year 2000/2001 was a difficult year for the Group. The Group's turnover decreased HK$434 million, or 14% in fiscal 2001 over fiscal 2000. The decrease is contributed by the slow down of the global economy, the weakened consumer sentiment and the ongoing price wars in the PRC TV market. For these reasons, the Group recorded a loss to shareholders of approximately HK$171 million, the first time since its listing back in 1991.

Television

Sales of television products continued to be the main contributor to the Group's consolidated turnover, accounted to over 87%. During the year, the PRC market has been harshly hit by further price wars, which was initiated by the major domestic manufacturers. PRC sales had dropped to HK$1,332 million, representing a decrease of 23% over last year.

In the overseas market, despite the downturn of the U.S. economy and the continuous weakening of the Euro, overseas sales raised to HK$942 million, an increase of 7% as compared to last year. The Group's strategy of reducing low margin products helped the export sales to remain strong and competitive.

Air-conditioner

The Group has foreseen the risk of relying on a single product, and has diversified into the air-conditioner business. Since the commencement of operation in March 2000, the result was satisfactory. In its first full year of operation, turnover reached approximately HK$400 million. The Group believes the air-conditioner business will start making contribution in the next fiscal year.

Recovery

In order to increase its competitiveness to meet future challenges, further restructuring and re-engineering is inevitable. On top of the ongoing business process re-engineering for its television manufacturing operations, the Group has laid out a restructuring plan that will cover every aspect of the company, and will take approximately 18 months to realize its results.

Corporate Restructuring

First, the Group will restructure its existing business into three separate divisions, the Audio-Visual division, the White Goods division and the Strategic Investment division. The restructuring is aim to increase its efficiency in operation and its effectiveness in utilizing resources to where potential lies. In the future, the head office of the Group will only be responsible in setting directions, formulating corporate strategies, monitoring the performance of the business divisions and allocating resources.

Product adjustment

Diversification into products with more value-added services and higher profit margins is the long term strategy of the Group.

Audio-visual products

TV products will remain as the Group's main contributor in terms of turnover in the near future. The Group is moving into higher margin products, such as Plasma TV and LCD monitor where production will commence in the fourth quarter of 2001, in order to compensate for the loss of margin and volume of the traditional TV products. Furthermore, the design of traditional TV will need to be improved in order to reduce the cost and remain competitive in this highly saturated market.

White Goods

The Group started its air-conditioner business in the first quarter of 2000. The Group experienced success in its first full year of operation. In the coming year, the Group will introduce the inverter air conditioner that will provide rapid temperature adjustment, accurate temperature setting, energy saving, etc.. The Group will continue to leverage on the ROWA brand name and its distribution network, factors that have contributed to the success during the year. The Group believes the air-conditioner business will make significant contribution in the next fiscal year.

Strategic Investment

Traditional consumer electronic products have been the core business of the Group since its establishment in the early 1980s. The Group has bulked up its product lines in order to remain competitive throughout the years. However, the market conditions in recent years have increased our anxiety on the future of the consumer electronics industry. Therefore, the Group has formulated policies to invest on non-core business. The Group will consider projects that have market potential and an annual return on equity of more than 25%. Moreover, the Group needs to be able to recruit the right professionals to direct those investments.

Optical fiber networking products

The rapid growth in Internet usage is probable the single most important factor for the rise in demand for broadband service. According to some analyst reports, optical equipment is the only solution that can, in the long-term, cost effectively meet the increased demand for bandwidth in metropolitan networks, and the dense wavelength division multiplexing (DWDM) optical systems will grow at a 28 percent compounded annual rate over the next 5 years. With the enormous market potential, the Group has established a R&D and manufacturing facilities in developing and producing high performance and high quality optical thin-film products, such as 100 GHz DWDM filters. Production commenced in July 2001. Although the quantity is minimal in the early stage, its quality already received praises from both its customers and peers.

Bio-Chemical products

The Group has invested in a pharmaceutical company, known as Wuhan Hualong Bio-Chemical Pharmaceutical Co., Ltd., during the year under review. The Company recently developed a plasma substitute known as polygelatine plasma substitute. In the past, plasma substitute used in the PRC was imported from Europe. However, due to the spread of the mad cow disease, most of the European manufacturers have stopped their production of plasma substitute. This creates an opportunity to the Group, since there is only a few PRC companies has the technology and know-how in manufacturing plasma substitute. According to market information, the PRC annual consumption of plasma substitute estimates to be RMB7 billion, while the world market estimates to be around RMB32 billion per annum. Mass production of the plasma substitute will commence in the first quarter of 2002.

Computer Software

The Group successfully transformed one of its subsidiaries, Shenzhen Rowa Digital Network Technology Ltd., from an e-Commerce operator into a software developer. The Company has developed software for the control panel of air-conditioner, and sold to one of the major air-conditioner manufacturers in the PRC. In addition, the Company is developing software for customer relationship management

("CRM"). The Group believes the CRM software will be completed in the third quarter of 2001, and will hold trial run in our air-conditioner business.

By going through the above restructuring, the Group believes it will improve its competitiveness to face the next round of challenges.

Tax

During the year, the Inland Revenue Department ("IRD") has conducted a field audit on the Company and its subsidiaries for the year of assessment from 1994/95 to 1999/2000. The Group has agreed with the IRD for the basis of settlement and has submitted a formal proposal for settlement of the field audit to the IRD. The Group believes that the proposal would be favourably considered by the IRD. Thus the Group is confident that no further provision will be needed for the additional assessment.

FINANCIAL REVIEW

The total net sales of the Group decrease by HK$434 million, or 14%, in the financial year of 2001 over the financial year 2000. The decrease is primary attributable by a slow down of the global economy, weakened consumer sentiment and ongoing price wars in the PRC TV market.

The gross profit decrease to HK$159 million, while both labour and manufacturing overhead achieved a decrease of 23% and 19% respectively over those of last year. The decrease in gross profit is primarily attributable by the ongoing price wars in the PRC TV market.

Selling and distribution costs decreased by 25% to HK$72 million over last year, which is in line with the reduction of the Group's turnover. On the other hand, administrative expenses remain high at HK$111 million due to the substantial severance pay to workers under the restructuring plan.

The Group made a provision for a trade receivables from associates of HK$73 million during the year under review.

Loss from associated companies increased to HK$27 million in 2001 compared to HK$9 million in 2000. The loss is contributed from two PRC associates whom are operating in the PRC TV business. The adverse condition in the PRC TV market has dampened the results of the Group.

APPRECIATION

On behalf of the Board of Directors, we would like to take this opportunity to express our sincere thanks to our shareholders, bankers and business partners for their continued support to the Company and also extend our appreciation to all management and staff for their loyalty, commitment and contributions throughout the year. We pledge to combine our energies and knowledge to achieving our goals so as to maximise the benefits to our shareholders.

Tse On Kin
Vice Chairman

Hong Kong, 31 August 2001