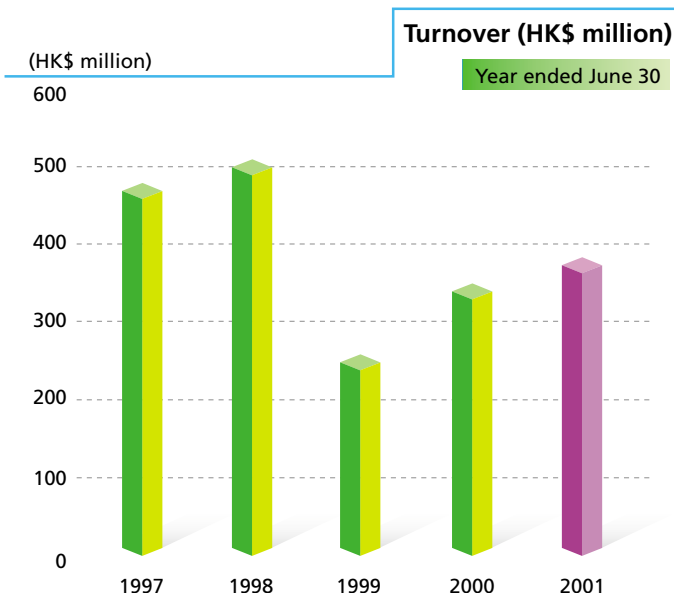


# Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the annual report of Welback Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 30 June, 2001.

The financial year 2001 was very challenging and difficult for the electronics manufacturing industry as the global economy remained sluggish, with the potential for recession and an unfavourable consumption climate in the United States market, a worldwide shortage of components, a rise in material costs and great pressure on product pricing. Despite these difficulties, the Group achieved turnover of HK\$382.8 million during the financial year 2001, representing an increase of 9.7% when compared to that of the previous year.



Taking the year as a whole, the global economy remained sluggish. However, the increase in customer demand for the Group's multimedia electronic products has demonstrated the success of our strategic move of restructuring from a traditional handheld game manufacturer to a multimedia electronic products manufacturer since the beginning of the year 2000, and bodes well for the future.

The Group's multimedia electronic products, including a series of Digital Cameras, Karaoke Systems, Digital Voice Recorders and Data Banks, accounted for about 51.4% of the Group's turnover this financial year, an increase of about 128% to HK\$196.7 million compared to that of last year. Approximately 85.3% of this turnover came from Digital Cameras and Karaoke Systems, an increase of about 165% over that recorded in the last financial year. The Directors are of the opinion that market demand has increased dramatically as a result of the introduction of the Group's broad range of digital camera products, which are of competitive price, innovative design and reliable quality. However, this business line recorded a loss from operations of approximately HK\$10 million this financial year due to the rise in material costs and great pressure on product pricing.

The Group's toys and games products, mainly LCD handheld games and colour video games, accounted for about 22.7% of the Group's turnover this financial year, representing a sharp decrease of 48.7% to HK\$86.9 million compared to that of the last financial year. Profit margins have fallen since the last financial year. Due to the continuing price pressure and increasingly competitive operating environment for toy industry participants, this business line recorded a loss from operations of approximately HK\$15.5 million during the year.

## Chairman's Statement

Although the telephone product market is competitive, the Group's telecommunication product business achieved annual sales of approximately HK\$89.2 million this financial year, representing an increase of 24.8% compared to that of last financial year. Sales of these products continued to be profitable.

On 13 October, 2000, the Company through its wholly owned subsidiary, Welback International Investments Limited ("WIL"), entered into an agreement ("JV Agreement") with independent third parties for the formation of a company ("JV Co") which would be involved in waste and/or water treatment projects in the PRC and Hong Kong. Pursuant to the JV Agreement, WIL would subscribe for 40% of the issued share capital of the JV Co by cash at a subscription price of HK\$40,404,040. A deposit of HK\$12,121,212 representing 30% of the subscription price was paid by WIL on 18 October, 2000. As part of the formation of the JV Co, the parties to the Agreement attempted to draw up a shareholders' agreement to regulate the rights and obligations of each of the parties to the Agreement as shareholders of the JV Co. However, after lengthy negotiations, the parties to the JV Agreement could not reach agreement on certain terms and conditions of the shareholders' agreement. As a result, the parties to the Agreement entered into a Cancellation Agreement on 22 January, 2001, whereby the JV Agreement was cancelled. As a result, the Company received HK\$11,555,555 as refund of the deposit paid by the Company, after deducting certain expenses. In addition, a total sum of HK\$216,850, being interest earned on the deposits paid, was returned to the respective parties. After accounting for all legal and professional charges and the interest earned, the Company realized a loss of approximately HK\$1,870,618. This loss has been charged to the Income Statement of this financial year.

In order to reduce the interest burden of the Company, with the agreement of the convertible bondholders, the Company redeemed early all outstanding 3% convertible bonds amounting to HK\$20 million on 17 November, 2000 and 6 February, 2001 respectively.

After accounting for all provisions and finance costs, the net loss for this financial year increased to approximately HK\$32.7 million when compared to last year's loss of HK\$22.1 million.

On 25 April, 2001, the Company through its wholly owned subsidiary, Welback International Investments Limited ("WIL"), acquired a 50% interest in Fine Apex Limited ("Fine Apex"). Fine Apex is now holding a leasehold property in Hong Kong for resale. The leasehold property had an open market value of approximately HK\$47.5 million as at 30 June, 2001.

In previous years, the Group did not directly sell its products to the PRC market. However, with China's forthcoming accession to the World Trade Organisation, the Directors are of the opinion that such a move would lead to a potential market for the Group's products. In order to expand into the China market, the Group incorporated a foreign investment enterprise, Ruian Weiye Technology (Shenzhen) Limited, in Shenzhen, China on 26 June, 2001. This company has been approved for 50% domestic sales and will engage in the manufacture and distribution of multimedia electronic products and LCD handheld games worldwide and to China. The Directors consider that there is strong market demand in China for the Group's LCD handheld games products, which are of competitive price, innovative design and reliable quality, and they are optimistic that significant sales will be achieved during the 2002 financial year.

## Chairman's Statement

On 16 July, 2001, the Company through its wholly-owned subsidiary, Quicky Technologies Limited ("Quicky"), entered into an agreement ("Agreement") with several Vendors, whereby upon certain terms and conditions, Quicky agreed to acquire and the vendors agreed to dispose of the Sales Shares, representing an aggregate of 25% of the issued share capital of Gen-Wan Technology Corp, Taiwan ("Gen Wan"), at an aggregate consideration of HK\$60 million. Gen Wan is a company principally engaged in the development of Wideband Code Division Multiple Access ("WCDMA") and Orthogonal Frequency Division Multiplexing ("OFDM") technologies and the sales of related system networks and products. A refundable deposit in the sum of HK\$1 million was paid by Quicky to the Vendors on 16 July, 2001. Upon completion, Quicky shall pay the balance of the consideration (having deducted the refundable deposit paid) to the Vendors: (a) by delivering five promissory notes with an aggregate sum of HK\$44 million duly issued by Quicky; and (b) by way of cash in respect of the sum of HK\$15 million. The promissory notes are payable on written demand at the expiry date of the 2 year period from the completion date. A circular containing the details of the acquisition was dispatched to shareholders of the Company for their information on 27 July, 2001.

During the year under review, the Group implemented a series of cost control measures to reduce manufacturing overheads and the administrative expenses of the operating divisions. However, the effort was negated by the worldwide shortage of components and the rise in material costs. Individual operations have established good and reliable relationships with strategic suppliers of both major components and technical support for the Group's products.

Looking ahead, despite the negative effects on the global economy of the Terrorist attacks on the United States on 11 September, 2001, the Directors are of the opinion that the rapid development and acceptance of IT technologies worldwide will create strong market demand for digital and internet-related products in the years ahead, while the LCD handheld games market will further consolidate in the developed countries, although growth is still attainable elsewhere. Hence the Group is focusing its attention on accelerating the development of new products for the four-selected product category areas, i.e. digital cameras, karaoke systems, games and telephone products. The Group's existing manufacturing facilities were further equipped and modified in the middle of the year 2001 so as to increase manufacturing capacity for hi-tech electronic products in order to meet customer demand.

The Directors are convinced that the Group is well positioned to diversify its product range, improve production efficiency, increase market exposure and expand its customer base.

On behalf of the Board of Directors, I should like to express our sincere appreciation to the management and all our staff for their diligence, enthusiasm, their contribution to the Group during the year and for their commitment for the future, and to our bankers and auditors for their continued support. I should also like to thank all our shareholders for their continued faith in the Group.

**Lee Chun Kwok**  
*Chairman*

Hong Kong, 28 September, 2001