

# CHAIRMAN'S STATEMENT



Mr. Poon Ka Hung  
*Chairman and CEO*

## FINANCIAL RESULTS

The year 2001 proved to be a difficult year. Turnover for the year was HK\$3.7 billion, a decrease of 5.3% when compared to the previous year. Profit attributable to shareholders for the year was HK\$48 million, a decrease of 30.6% over the previous year. Despite such decreases, at the end of 2001, the net asset value of the Group continued to increase and reached HK\$510 million or HK\$1.16 per share.

The board of directors is pleased to recommend a final dividend of HK1.5 cents per share, to be paid in scrip form with a cash alternative. Including the interim dividend per share of HK0.5 cent already paid, the total per share dividend for 2001 amounted to HK2 cents, a decrease of 33.3% over the previous year.

## REVIEW OF OPERATION

The first year of the new millennium turned out to be as difficult a year for the general consumer electronics business as anticipated and discussed in the Chairman Statement of the previous year. In the beginning of last year, we already saw a slow first quarter and a squeeze of margin resulting in our profits falling by 47% in the first half year. The second half of the year was especially eventful. The 911 tragedy in the U.S., the melt down of the currency board of Argentina and numerous corporate insolvencies and bankruptcies adversely affected most economic activities worldwide. Consumer demand for electronics products in general slowed down significantly. This was particularly true for commodity and high priced products. There were exceptions, such as some digital products and home theatre type of products as consumers preferred entertainment at home due to security reasons. Products that were inexpensive and had relatively low market saturation were much in demand.

Demand for consumer electronics products staged a general come back towards the end of last year and continue on to so far this year. However the business volume improvement was at the expense of significant deterioration of margins. This was caused largely by the generally pessimistic economic environment last year when competition for business regardless of margin was particularly keen in order to survive. In addition, there was not any shortage of supply of the finished products to meet demand resulting in prices of finished goods went down faster than that of components, thus further squeezing margins. The profit margin would stabilize when the adjustment of the price of components takes place. All these resulted in a modest drop in business volume of 5.3% for our Group last year while the gross profit margin went down from 9.3% to 8.2%. The relatively stable business volume was actually quite an achievement since prices had dropped by some 25-40%. Therefore, the number of units of products had grown by similar percentages. The relatively stable total business volume was a proof of our ability to quickly deliver products which met market demand even under the generally difficult market conditions.

The strategy of the Group to emphasize on OEM/ODM business, which offered more stable profit margin, has proven to be correct. The Group's OEM/ODM business grew during the year. Another risk management strategy was knowing your customers. While K-Mart is one of our valued customers, for example, it only accounted for less than 2% of our total turnover last year. Their filing for Chapter 11 did not adversely affect our results for the year as we did not have any outstanding account with them.

As anticipated in our half yearly review, the performance of the jointly-controlled entities and associates in China much improved in the second half of last year. From losses at the half-year stage, some of them turned in profits for the full year last year. However, the profit margin was much lower when compared to the year 2000.

New technologies and thus new features in audio/video consumer electronics are introduced to the market at an unprecedented rate. New technology such as MPeg 2, MP3, CDR, CD-RW, progressive scanning, JPeg, MP3 Pro, SACD, DVD audio, MPeg 4, DVR, to name a few, either have or fast becoming standard features, demanded by consumers although at different levels. New features offered by new technology mean a matrix of new products. Combining audio and video functionality also mean new products, for example, home theatre products. These new technology can be applied to both home and in-car environment. As mentioned in our previous annual report, instead of competing in pricing only, we have spent much R&D effort to build up capability in the development of new products. This is one of the key reasons in our success in increasing Original Design Manufacturing (ODM) business which offered new products to our customers.

The Group is progressively building its distribution network in China. Two marketing and distribution teams were set up during the year in addition to an existing team. The mission of the teams is to establish a brand name and a new market for the Group in the long run.

The new factory building at Wuxi, China was complete during the year. This is our base for the China products for home use. We are setting up our core technology centre around this area as well.

## PROSPECTS

The Group is benefiting from the much improved business environment in the first quarter of 2002 due to both external and internal reasons. With the improved consumer confidence and the rapid inventory adjustment in U.S. coming to a close, business volume has improved especially compared to the slow first quarter of last year. Profit margins are showing some signs of stabilization. The R&D efforts in the past years are bearing fruits bringing in more OEM/ODM business. We will continue with this cautious approach and to concentrate more in this type of business.

In the first 2 months of this year, the Group stopped some less promising projects and shrunk staff levels in some areas in order to be more focused in areas with greater potential. The management will also continue to take steps to further improve efficiency within the Group.

I would like to thank the Board of Directors and all Group employees for their hard work and discipline in executing our strategy in a year of exceptional challenge. I would also like to express our sincere appreciation to our shareholders and the financial institutions for their continued supports.



Poon Ka Hung  
*Chairman*