

OVERALL RESULT

The substantial overall loss cut of the Group was attributed to the reduction in its financial and administrative expenditures, as well as the positive results from its business restructuring. However, the loss was mainly incurred by the substantial increase in provisions for the businesses in telecommunications, properties and the associate companies as well as the loss suffered by the audio-video manufacturing business.

ASSETS AND LIABILITIES

As at 31 December 2001, the Group still had total liabilities of about HK\$2,293,204,000 (2000: HK\$2,323,527,000), of which the current liabilities and non-current liabilities for bank loans were HK\$634,612,000 and HK\$268,615,000 respectively (2000: HK\$643,359,000 and HK\$324,394,000 respectively). In mid-December 2001, the Group settled in full the outstanding principal, of US\$28,000,000, of a syndicated loan.

In terms of contingent liabilities, there was about HK\$4,450,000 outstanding as at 31 December 2001, which was a guarantee provided by the Company to secure the repayment of trade facilities by a third party (2000: HK\$8,000,000).

The Group's assets/liabilities ratio is calculated by dividing its total liabilities by total tangible assets and the current ratio is calculated by dividing the current assets by the current liabilities. As at 31 December 2001, the assets/liabilities ratio was 66% (2000: 53%), which was the result of substantial reduction in total tangible assets attributed by significant impairments made for assets; and the current ratio was 1.12, similar with that of the previous year (2000: 1.19).

The Group reviews its cash flow and financial position periodically. At present, the Group is exploring various ways to obtain long term financing in order to reduce the pressure of short-term liquidity.

During 2001, the Group strengthened its effort to dispose of its investment properties with satisfactory results, aiming to pool up its resources for core businesses. Meanwhile, the Group accomplished the second-phase plant construction project in its Huizhou Industrial Park in Mainland China in December 2001.

CASH FLOW

The source of finance of the Group comes from its own resources supplemented by banking facilities. The cash on hand as at the end of December 2001 was about HK\$367,000,000 (2000: HK\$368,000,000), most of which were in HK dollars with the rest in RMB and US dollars.

The Group's bank loans are at market interest rates and denominated in HK and US dollars. In addition to mortgage loans, several term loans and overdraft facilities arranged by local banks are at prime rate whereas the remaining loans are at HIBOR plus margin basis. The Group encounters little risk in exchange rate under the peg system in Hong Kong, and foresees the interest rate will remain at a low level in the near future. Therefore, there is no necessity for the Group to engage any financial instruments or derivatives to hedge the exchange and the interest rate risks.

The Group will continue to control its costs and expenditures under a strict financial management system.

MAJOR FINANCIAL ACTIVITIES

On 21 May 2001, the Company made a placement of 50,000,000 shares and subscribed 100,000,000 shares in CASTEL at HK\$0.5 each through a placing and top-up transaction.

Due to a change of policy in Mainland China, the remaining amount of over HK\$100,000,000 from the Group's previous placing proceeds has not yet been allocated completely to those planned projects as set out in the Company's announcement dated 26 January 2000.

MORTGAGED ASSETS

A couple of the Group's real estates and investment have been mortgaged to banks with instalment repayment terms. As at the end of December 2001, there were outstanding principal of mortgage loans, of about HK\$500,000,000, at prime rate and their remaining terms by instalment vary from 2 to 10 years.

HUMAN RESOURCES

The Group devotes constant efforts to update its internal human resources management and assessment system, as well as to encourage its staff to enroll in professional courses and seminars so as to further improve human resources management, enhance assessment quality and strengthen internal supervision.

The Group now has a total staff of around 4,000 in Mainland China and in Hong Kong.

By Order of the Board

Lu Xiaochun
Chairman

Hong Kong, 22 April 2002