



Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the annual results of the Group for the year ended 31 December 2001.

RESULTS

The Group's profit attributable to shareholders for the year was HK\$31.1 million, representing a decrease of 4.2% over the previous year. Basic earnings per share amounted to HK2.63 cents, compared with that of HK4.27 cents in the previous year. We reported a solid cash and balance sheet position. At 31 December 2001, the Group's net cash position amounted to HK\$373.8 million (2000: HK\$138.5 million), represented 62.4% of the shareholders' fund of HK\$598.6 million (2000: 36.7%).

The Board of Directors does not recommend the payment of any final dividend (2000: Nil).

BUSINESS REVIEW

It was a difficult year for the electronics industry in 2001. The market demand was slowing down as a result of the correction of excessive supply in previous year. Coupled with the slow recovery in the global economy and the "11 September" event in the United States of America, the electronics industry confronted with an unfavourable business environment during the year under review.

In spite of the severe business environment, the Group's electronics business as a whole was still profitable in 2001 although the turnover reduced by 8% to HK\$420.6 million compared with last year.

For the manufacture and sale of electronic products, in view of the slowdown economy in 2001, the total sales to North America decreased by about 24%. In the Hong Kong local market, it was continually affected by the depressed market condition that leading to a decrease of about 23% in its turnover compared with 2000. Although it succeeded to maintain a growth in the OEM business with Japanese customers and was also benefited from the preliminary recovery of the European markets, the total turnover of the electronic products division dropped by approximately 8% for the year 2001. Nevertheless, under the effective cost controls, the electronic products division of the Group was still profitable for the year under review and recorded a profit contribution of HK\$48.1 million.

The year of 2001 was a hard time for the printed circuit board ("PCB") industry. The contraction of the electronics industry and the worldwide over-supply of PCBs led to a very keen competition. The turnover of the PCB division of the Group decreased by over 38% compared with last year and suffered a loss of approximately HK\$12.1 million for the year of 2001.

In view of the continuing unfavourable market condition, the trading and distribution of electronic components and parts business of the Group became dormant commencing from second quarter of the year 2001.

Regarding trading of listed equity investments, turnover for the year amounted to HK\$31.6 million, compared to that of HK\$9.7 million in year 2000 and the Group had disposed substantial part of its investment in Cedar Base Electronic (Group) Limited.



Chairman's Statement (Continued)

As the market condition was not favourable, interest income from loan financing decreased by 33% to HK\$6.4 million compared with last year.

Pursuant to two separate placing agreements dated 8 May 2001 and 11 March 2002, Winspark Venture Limited ("Winspark"), the major shareholder of the Company, placed 69 million and 178 million shares through independent placing agents to independent investors at a price of HK\$0.17 and HK\$0.15 per share, respectively. Moreover, pursuant to two top-up subscription agreements between the Company and Winspark on the same corresponding dates, Winspark subscribed for 69 million and 178 million new shares of the Company at a price of HK\$0.17 and HK\$0.15 per share, respectively. The net proceeds of approximately HK\$11.5 million and HK\$26 million from the share placement were used for general working capital of the Group.

On 10 August 2001, the Directors announced that the Company proposed to raise a gross proceeds of HK\$178.8 million by issuing not less than 1,788,457,630 new shares by way of rights issue at a price of HK\$0.10 per rights share on the basis of two rights shares for every existing share held on the record date. 936,884,000 rights shares were accepted and the balance of 851,573,630 rights shares were underwritten by Winspark.

The rights issue raised the net proceeds of HK\$177.5 million which are mainly used to finance any possible acquisition of listed or non-listed assets and the expansion and/or diversification of the Group's existing operations and businesses. The expansion plan may include widening of the Group's product range, upgrading of technical knowledge and expansion of production capacity of the electronic product business. However, the funds raised under the rights issue are not currently earmarked for any specific projects or any specific business.

On 16 July 2001, the Company entered into an exclusivity agreement with The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), the trust agent of Optiset Limited ("Optiset"), the then major shareholder of Swank International Manufacturing Company Limited ("Swank"), the beneficiaries of the trust being the individual bank creditors of Swank, in relation to, among others, the Company's proposed acquisition of the entire interests of Optiset in Swank. Swank is a Hong Kong listed company principally engaged in the manufacture and sale of optical products.

Subsequently, in January 2002, Probest Holdings Inc. ("Probest"), an indirect wholly owned subsidiary of the Company, signed a sale and purchase agreement with Optiset to acquire from it the majority stake in Swank and the related bank loans. The transaction was completed in March 2002 whereby the creditors banks agreed to sell its majority stake in Swank and the related bank loan of HK\$250 million to Probest for a total consideration of HK\$68 million. Full amount was paid as deposit in August 2001. Moreover, following a General Offer made by Probest in compliance with The Codes on Takeovers and Mergers, which was completed in early April 2002, Probest totally acquired 1,641,638,651 Swank shares, representing 73.5% interest in Swank.



Chairman's Statement (Continued)

FUTURE PLANS

For the manufacture of electronic products, it is anticipated that more well-known overseas electronic manufacturers are on the way to move their manufacturing bases from their home countries to the Southern China. This is intended to reduce the production costs and to develop the potential market in the Greater China. It will create a room for the further development of our OEM business in the coming future. To cope with this market trend, the Group will allocate more resources to enhance its manufacturing capabilities on new technologies, especially the application of advanced packages for product miniaturization in mobile computing and electronic products. Based on the existing strength in research and development, the Group will upgrade and expand its capabilities to handle the advanced packages and processes to equip for the future development of OEM business.

The PCBs industry is still under keen competition. The Group will place more efforts to streamline its PCB operations in order to maintain its competitiveness in the market. With the result of stringent cost control, it is expected to resume its profitability in the nearest future.

Regarding the new investment in Swank, Swank continues to be a strong market player in the eyewear industry, with well-known products covering a full range from metal, plastics to handmade, and include anything from sunglasses, optical frames to readers. To enhance its competitiveness in the market place, Swank needs to improve all aspects of operation, including but not limited to better linkages between sales, manufacturing and support functions. Swank's future will likely to be remarkably different from the past few years, during which Swank had to generate cash from operations to repay bank loan interest, while not being able to make significant improvements to the company's profitability.

The Group continues to be in a position of solid base and will continue to explore suitable investment opportunities to enhance its earning base and acts promptly as and when suitable opportunities arise. Currently, the Group is under a very preliminary discussion with various independent parties for acquisition of various projects including pharmaceutical businesses and that no detailed terms have yet been finalized.

On behalf of the Board of Directors, I would like to thank all our employees, for their dedication and support throughout the year, as well as our suppliers, customers, bankers and shareholders.

On behalf of the Board

Yau Tak Wah, Paul

Chairman

Hong Kong, 23 April 2002