

PRESIDENT'S STATEMENT AND REVIEW OF OPERATIONS

I am pleased to present the results of the Group for the year ended 31 December 2001.

RESULTS

The turnover was HK\$7,818 million for the year, a decrease of 6% from HK\$8,309 million for 2000. Profit attributable to shareholders was HK\$457 million as compared to the previously reported profit of HK\$406 million in year 2000.

An interim dividend of HK8 cents per share was paid on 31 October 2001. Your board of directors has recommended, subject to compliance with regulatory requirements, if any, a final dividend by way of a distribution in specie of one share of Sansui Electric Co., Ltd. ("SEC"), a company listed on the First Section of the Tokyo Stock Exchange, for every two shares of the Company held by shareholders on the register of members on 11 June 2002. The market value at the close of business on 24 April 2002 of SEC was 11 Yen per share which equates to HK33 cents per share.

REVIEW OF OPERATIONS

The year 2001 has been a constructive year for the Group.

In July 2001, the Company entered into an agreement to sell 1,092 million shares of Capetronic International (Thailand) Public Company Ltd to a 72.5% owned subsidiary of the Group at market value. The transaction was completed in October 2001.

In November 2001, the Group acquired 30.97% of the issued share capital of Lafe Technology Limited ("Lafe") from Nakamichi Electronics Inc and the shareholding of the Group increased to 62% of the issued capital of Lafe.

The core divisions of the Group comprise of (i) The Electronic Manufacturing Services Division ("EMS"), (ii) The Magnetic Media Division, (iii) The Branded Distribution Division (iv) The Financial Services Division.

I am pleased to report that for the EMS division, the production and sales of consumer electronic products recorded an improved performance in the year. The continued consolidation of the manufacturing facilities located in the People's Republic of China and the increased production of electronic components resulted in a reduction in the manufacturing cost. The operating profit for 2001 was HK\$135 million compared to a profit of HK\$15 million in 2000.

As for the Magnetic Media Division, the operating profits decreased by 12% to HK\$205 million. The decrease is mainly due to the decline in the demand for the Digital Linear Tape Ferrite Heads and continuous



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price pressure. The results were also impacted by the provisions made for the value of the long term investments.

For the Branded Distribution Division, I am pleased to report that the sales for the year has more than doubled from the previous year to HK\$932 million, while the operating profit was HK\$146 million compared to HK\$27 million in year 2000. This is the result of the expansion of the distribution channels as well as the increased global marketing efforts and the launch of new and exciting products.

The Financial Services Division also expanded its operations and acquired a foreign exchange business in April 2001. The operating profit for this Division was HK\$126 million compared with HK\$112 million in 2000.

PROSPECTS

Electronics Manufacturing Services Division

The worldwide slowdown in the consumer electronics industry will continue to affect demand. However, the global restructuring of the industry will also create opportunities for the Division as more and more customers are shifting their productions from high cost countries, including Japan, USA and Europe, to the People's Republic of China, a low cost country. The recent entry of the People's Republic of China into the World Trade Organization will also encourage more branded products to be manufactured and sold domestically in China. The majority of the Division's manufacturing facilities in the People's Republic of China, have now been centralised in the major factory complex in Zhongshan. This will contribute to further reduce component and manufacturing costs and improve margins for this Division. The Division is also concentrating on a product mix which yields higher margins.

Magnetic Media Division

The Division is collaborating with customers in various new product designs, including new Magneto-Resistive ("MR") Tape Head products and modules, as well as sub-systems. The Division is well positioned to take advantage of its leadership position in tape drive heads with the increased awareness of the need for data protection and disaster recovery. The production of Super Digital Linear Tape Heads and Digital Control Modules commenced in 2001 and ramping up of production is continuing. The sales of new MR Tape Head products is expected to account for a significant portion of the overall sales in 2002 as the demand grows. In addition, the Division will continue to focus on improving yield and reducing manufacturing overheads as well as administration expenses. Barring unforeseen events, the Division expects that the sales performance in the year will be better than 2001.



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Branded Distribution Division

This Division now has the responsibility for managing the distribution and licensing of three major Brands; Nakamichi, Akai and Sansui (collectively "Brands"). In addition the Division also manages the trademarks and patents of the Brands. Accordingly, the Division has commenced a pro-active brand management programme and has made and will continue to make significant investments in the Brands and the infrastructure required to manage the Brands.

The Division's strategy is to appoint different distributors in each territory, granting them sole and exclusive rights as distributor of the Brands' products. It is expected that the world-wide distribution of the Brands will continue to significantly expand throughout 2002 and more distributors will be appointed. The other important income stream is royalty payments that is made directly from licenses. However, the Division intends to concentrate on the distribution of the Brands' products.

The Group expects that this Division will produce favorable returns in 2002 both on the investment already made in the Brands and the investments that are continuing, both in capital and manpower.

Financial Services Division

The Group will continue to take advantage of the current situation in both the People's Republic of China and Japan, in respect of distressed debts, by both assisting in the restructuring of corporations and the purchase/sale of debt, as the opportunities arise. The Group can leverage on its in-house expertise in this area.

Changes in Share Capital during the year

The following changes in the Share Capital of the Company took place during 2001:

1. On 9 January 2001, a Special General Meeting of the Company was held to approve the increase in authorised share capital from HK\$1 billion divided into 400 million shares of HK\$2.5 each, to HK\$2.5 billion by an additional 600 million shares.
2. On 5 December 2001, a Special General Meeting of the Company was held to approve the reduction of capital and an adjustment of the nominal value of shares such that the authorised share capital of the Company is now HK\$100 million comprising of 1 billion New Shares of which 400,227,320 New Shares were issued and fully paid. The nominal value of each share is HK\$0.10. The credit amount of HK\$960,545,568 arising from the Capital Reduction was credited to the contributed surplus account of the Company.

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APPRECIATION

I would like to extend my appreciation to the management and the staff of the Group for their dedication, loyalty and commitment. I would also like to thank our shareholders, customers, suppliers and business associates for their continuing support and confidence in the Group.

A handwritten signature in black ink, appearing to read 'Chris Ho', written in a cursive style.

Christopher W. Ho

President and Group Chief Executive

Hong Kong, 25 April 2002