Management Discussion and Analysis

GROUP RESULTS

Turnover of the Group dropped to HK$516,300,000 for the year under review, representing a decrease of HK$170,300,000 or 24.8%. The Group reported a loss of HK$62,700,000 for the year ended 31 December 2001 as compared to a loss of HK$18,700,000 in 2000.

FINANCIAL REVIEW

Liquidity and financial resources

At the balance sheet date, the Group's gearing ratio (total debt divided by equity) and current ratio (current assets divided by current liabilities) are 0.09 (2000: 0.12) and 2.60 (2000: 2.35), respectively, which have improved as compared to prior year.

Bank loans had decreased by approximately HK$22,000,000 to HK$43,000,000 as at 31 December 2001. The Group's borrowings were mostly denominated in Hong Kong dollars.

After taking into account the existing cash resources and unutilised bank facilities, the directors are of the opinion that the Group will maintain an adequate liquidity position throughout the financial year ending 31 December 2002.

Capital structure

Certain share options were exercised and a total number of 4,350,000 ordinary shares of the Company were subscribed pursuant to the Company's share option scheme during the year under review. Save as aforesaid, there are no movements in the ordinary share capital of the Company during the year.

Contingent liabilities

The contingent liabilities of the Group, mainly from guarantees for banking facilities and finance lease contracts granted to a jointly controlled entity, increased from HK$104,600,000 as at 31 December 2000 to HK$104,800,000 as at 31 December 2001.

BUSINESS REVIEW

The loss of HK$62,700,000 for 2001 includes a total of HK$22,900,000 from other operating expenses, HK$9,400,000 for provision of obsolete stocks, HK$19,600,000 for loss on disposal for an Australian subsidiary, and HK$2,000,000 for a further provision on interest in a jointly controlled entity. Excluding the effect of disposal and reclassification of interest in a subsidiary to interests in jointly controlled entities during the year, the Group has successfully reduced its stock level by HK$44,300,000. In addition, the distribution costs and administrative expenses dropped by HK$5,000,000 and HK$12,200,000 respectively for the year 2001. These improvements collectively contributed to an increase of HK$9,800,000 in cash and bank balance and a decrease of HK$22,000,000 in bank borrowings in the Group's consolidated balance sheet even though a deduction of HK$23,900,000 in bank balance has been made for the effect of deconsolidation and disposal of subsidiaries.

Telephone Accessories and Power Cords

Turnover of the division for the year dropped by HK$153,700,000, including a decrease of HK$93,500,000 for sales to external customers.

Sales in telephone accessories was under severe competition from manufacturers in other cities of Mainland China with lower production cost. The Group has strengthened its engineering department to launch more new design of products to attract customers. As export market of power cords requires a high product safety standards, the Group has relied on its commitment in product quality to achieve a comparable sales level in power cords. Under the stock control policy, the total stock value of the division has significantly reduced. With stringent cost measures, the Group managed to mitigate the loss of the division.

Adaptors and Electronic products

The consumer electronic market was sluggish and the division reported a decrease of sales by HK$24,500,000 in the year under review.

The factory building was refurbished with new pollution control workshop during the year to improve quality of products. Through an extensive review on individual item of stocks to ensure its usage to the current design of products, the Group decided that a total of HK$5,200,000 of obsolete stocks was written off in the profit and loss account which increased the loss of the year to HK$12,200,000.

Management Discussion and Analysis

Printed Circuit Boards

Operating results on the cost control measures initiated by the Dongguan factory was fruitful. To cope with customers' demand for products with higher technology standard, the Group decided to write off obsolete machinery together with spare parts amounting to a net book value of HK$5,300,000 and to write off obsolete raw materials in the amount of HK$2,300,000. Despite a decrease of turnover by HK$15,000,000 attributed mainly to a reduction in selling price and losses from write-off of HK$7,600,000, the factory reported a profit of HK$1,300,000 in 2001 as compared to a loss of HK$1,300,000 incurred last year.

Following the set up of many large printed circuit boards factories, with monthly production capacity exceeding the annual output of Shanghai Printronics Circuit Corporation ("SPC"), in Shanghai and the cities of vicinity, existing manufacturers were under strong pressure in maintenance of their business and selling price. Turnover of SPC dropped in 2001 and a loss was reported in 2001 as compared to a profit recorded in 2000.

The Australian subsidiary has been loss-making since the Australian government gradually uplifted most of the protective measures to local electronic industry by 1998.

The Australian printed circuit board manufacturers are under cut throat competition for few local orders of small quantity. The tenancy agreements of the Australian factory will expire in the first half of 2002 and subject to a renewal for five to eight years. In view of heavy redundancy cost to shut down the factory, the Group has disposed of its interests in the Australian subsidiary for approximately HK$800,000 to an independent third party in November 2001, thus incurring a loss on disposal for HK$19,600,000. The loss includes a realised exchange loss of HK$10,500,000 in translating the net worth of the subsidiary in previous reporting dates. The exchange loss, previously taken into the exchange fluctuation reserve of the Group's consolidated accounts, was transferred to the profit and loss account to reflect the realization of such losses upon disposal.

High Precision Metal Components

Sales to external customers dropped by HK$6,400,000 to HK$37,300,000 in 2001. Having made a specific provision for doubtful debts in the account of HK$2,700,000, the division reported an increase of loss to HK$4,100,000 in 2001 as compared to a loss of HK$1,800,000 in last year.

The division has successfully diversified its products and customers to ensure the future stability of the business.

Management Discussion and Analysis

Freight Forwarding and Delivery Services

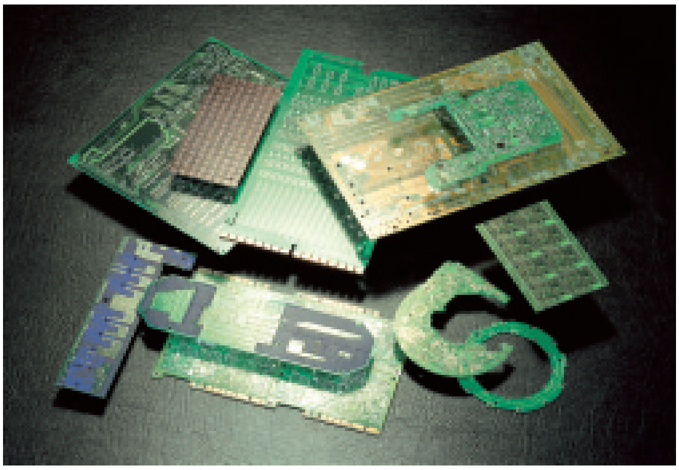
Hong Kong was still facing a slow economy in 2001. The division reported a turnover of HK$28,300,000 in 2001 representing a decrease of HK$8,600,000. Loss was reduced by HK$500,000 to HK$800,000 due to stringent control on overhead costs.

Utility Recharges, Corporate and Others

A revaluation deficit of HK$8,000,000 on investment properties was recorded in 2001. The deficit mainly comes from the revaluation of the Group's investment property situated in Kwun Tong which is an industrial building.

By reference to latest transaction records for similar properties in that area, the building was valued by an independent valuer at HK$17,000,000 on 31 December 2001 and HK$24,000,000 on 31 December 2000.

Jointly Controlled Entities



Business of copper wire jointly controlled entity remained stable. Profit was reduced as a result of drop in selling price due to competition from new factories set up in the Pearl River Region.

The jointly owned telecommunication company, Shou Jia Information Technology Ltd commenced liquidation on 23 January 2002 and the Group has made provision of HK$2,000,000 to write off the entire cost in the consolidated accounts. Legal action has been taken to demand the vendor of the shares in the company acquired by the Group in 1998 (as well as the guarantor under the Deed of Indemnity) to honour the put option exercised by the Group and to sell back the shares at not less than its original investment cost of HK$40,000,000 plus guaranteed profits.

Employees and remuneration policies

As at 31 December 2001, the total number of employees in the Group was 3,883.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration to motivate and retain existing employees and at the same time to attract potential employees. Remuneration packages are structured in such a way that takes into account local practices in the various geographical locations in which the Group and its associates operate. These remuneration packages include basic salaries, allowances, retirement schemes, service bonuses, fixed bonuses, performance related payments and share options where appropriate.

BUSINESS OUTLOOK

The Group has recently completed the internal organization restructuring and, in particular, the set up of corporate operation department to enhance controls on the manufacturing cost of all divisions on a timely basis. Mass production of new electronic products has commenced after the related export approvals were obtained during the year. The gross profit margin of the products was improved. Based on the work accomplished during the year and the positive business trend for latest development of the Group, the Board is optimistic about the performance of the Group in the forthcoming years.

BY ORDER OF THE BOARD
Cao Zhong
Chairman

Hong Kong, 22 April 2002