

2001 was a year of consolidation and repositioning for the Group. It also marked the transition of the Group from a large volume consumer electronics OEM manufacturing business to the niche high value-added technology and component business. This transition was largely completed in 2001 and the Group has emerged in 2002 with a new identity and new business initiatives. This was signified by the acquisition, around the year end, of Omnitech Holdings Limited, a company listed on the Australian Stock Exchange, and also by the change of the Company's name to Omnitech Group Limited effective 8 April 2002.

Reflecting the gradual exit from low margin and high volume business, turnover in 2001 dropped from HK\$1,775 million in 2000 to HK\$79 million in the current year. The gross contribution of approximately HK\$5 million was too small to cover overheads and other expenses. As a result, the Group recorded a loss of HK\$133 million in 2001, though this represents a significant improvement compared with a loss of HK\$325 million for 2000.

Administrative expenses and distribution costs dropped substantially over the previous year, reflecting the effects of downsizing of business volume and rationalization of expenses.

Other operating expenses also dropped substantially to HK\$52 million (2000: HK\$429 million). A major factor was that no further provision was required to be made in 2001 against the advance made in respect of the rescue of the Akai Group (compared with a provision of HK\$308 million in 2000), as there has been no further significant adverse development in that regard. Every effort has been made by management to reach a satisfactory solution to the Akai rescue. We believe such efforts have paid off and the Group will soon be able to put the matter behind it and to concentrate our resources in pursuing the Group's new business initiatives.

Other operating expenses also included a provision of HK\$30 million (2000: HK\$36.5 million) to further write down the goodwill relating to our e-commerce associated company, Bizipoint.com Limited ("Bizipoint"), to reflect its current value of HK\$280 million based on an independent valuation by LCH (Asia-Pacific) Surveyors Limited. However, given the exclusive relationship with China Electronic Chamber of Commerce and the foundation that Bizipoint has built up over the past two years, we are optimistic about the commercial potentials of Bizipoint and we hope to be in a position to advise our shareholders of more positive developments in the near future.

Towards the end of 2001 and perhaps signaling the end of a long period of consolidation and repositioning, two exciting and significant events took place:

a) Listing of Xteam Software International Limited (“Xteam”)

Xteam, a leading Linux software company in China and a strategic investment through our 50% associate Princeton Venture Partners Limited (“PVP”) had a highly successful Initial Public Offering on the Hong Kong Growth Enterprise Market, and has remained very popular with investors. PVP currently holds approximately 9.6% of Xteam, with substantial capital appreciation that can be realized based on the prevailing market prices. Given the huge opportunities in China for Linux application and Xteam’s leadership position, we believe Xteam has a very exciting future and we will work together with them to achieve its goals.

b) Acquisition of Omnitech Holdings Limited (“OHL”)

The Group acquired control of OHL around the year end. This acquisition provides the opportunity for the Group to make the quantum leap into the high value-added technology business. OHL, through its subsidiary VFJ Technology Holdings Limited (“VFJ”), is a world leader in advanced contactless smart card solutions. Combining leading edge technology and the market reputation of VFJ with the resources and business connections of the Group, we plan to aggressively exploit the huge market potentials of contactless smart card application in a number of areas such as transportation, access/security control system, and parking meters with particular emphasis in China and, at a later stage, Europe. Another subsidiary of OHL, Lik Hang Holdings Limited (“Lik Hang”), is a well managed and profitable electronic component manufacturer. Lik Hang will spearhead our further expansion in the components business, which provides profit and growth opportunities despite intense competition.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

The Group’s current assets and current liabilities as at 31 December 2001 were HK\$607 million and HK\$633 million, respectively (2000: HK\$694 million and HK\$574 million, respectively).

As at 31 December 2001, the Group had cash and bank deposit of approximately HK\$5 million (2000: HK\$26 million). The Group did not have any bank borrowings and maintained a very prudent financial and treasury policy aiming at keeping borrowings to a minimum.

To provide additional working capital and financial resources for business expansions and acquisitions, the Company has issued new shares for cash or otherwise on several occasions during the year and in early 2002:

- a) On 28 February 2001, the Company raised HK\$20 million by issuing 250,000,000 new shares at HK\$0.08 per share.

- b) Subsequent to the year end, on 14 January 2002, the Company issued 200,000,000 new shares credited as fully paid at HK\$0.06 per share for the acquisition of 50,000,000 shares in OHL from a number of shareholders of OHL.
- c) On 21 January 2002, the Company issued 280,000,000 new shares to settle the balance of outstanding amount of approximately HK\$18 million due to the Grande Group.
- d) On 6 February 2002, the Company raised HK\$13.5 million by issuing 270,000,000 new shares at HK\$0.05 per share.
- e) On 4 April 2002, the Company raised HK\$14.95 million by issuing 230,000,000 new shares at HK\$0.065 per share.

PROSPECTS

After a year of consolidation and repositioning, the Group is now well poised to enter an exciting phase of growth in its core technology and components businesses. VFJ enjoys a good reputation and market share in China and has now got some very real and exciting opportunities in the transportation sector in Beijing and Shanghai, as well as a number of provinces in China. VFJ has also applied its technology to the access/security control market, which provides major business opportunities no less exciting and probably as big as those provided by the transportation sector. VFJ's technology edge and reputation has already enabled it to secure strong partnership with major international names in the access/security control system areas.

There is strong technology and business synergy among the Group's various business activities including electronic components, e-commerce, software applications, and strategic investments. Such synergy creates business and technology advantages. Similarly, the merging of OHL into the Group pools together a strong management team and provides substantial cost saving opportunities and economy of scale in all departments ranging from back office to sales network. The quality and strength of our management team will prove to be a major asset and will ensure the Group will maintain the highest standard of corporate governance.

Our strategic investments are expected to bring in strong capital gain potentials and Xteam provides a very good example of what we can achieve. We will continue to look for investment opportunities in the technology and electronic components areas in which we shall be able to add value to our investments. Our mission is to build the Group into a world leader in smart card solutions, electronic components, software application and e-commerce.