

REVIEW OF OPERATION AND RESULTS

In 2002, the Group's turnover was US\$31,505,000, net loss reached US\$13,892,000 and basic loss per share were US0.17 cents, compared to last year's earnings per share of US0.43 cents. The net asset value per share was US0.31 cents. Net loss was mainly attributable to impairment loss recognised in respect of property, plant and equipment of US\$3,975,000 and deemed loss on partial disposal of subsidiaries of US\$2,034,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group's total shareholders' equity was approximately US\$26,348,000.

Total bank and other borrowings as at 31 December 2002 were approximately US\$21,064,000. This consisted of outstanding secured and unsecured bank loans, unsecured three-year loan notes and bank overdrafts which are mainly denominated in Reminbi and US dollars. The sales and purchases of the Group are also mainly denominated in Reminbi and US dollars. As the exchange rates of Reminbi and US dollars against Hong Kong dollars were relatively stable during the year, the Group's exposure to fluctuations in exchange rates is minimal.

As at 31 December 2002, the net cash and bank balances of the Group stood at approximately US\$5,026,000.

The gearing ratio of the Group (total borrowings as a percentage of non-current assets), has fallen slightly from 46.2% recorded in 2001 to 45.8% this year.

ACQUISITION OF A SUBSIDIARY

In July 2002, the Group's subsidiary, FMC acquired a 51.6% equity interest in Sota, a Taiwan-based IC design services provider. Sota is engaged in the provision of IC design services mostly in Taiwan and the USA, providing IC front end design, back end design and manufacturing logistics services to customers. On 1 September 2002, the transaction was completed. The total consideration was NT\$241,500,000 (equivalent to approximately US\$7,041,000). The consideration was fully paid after the completion of the transaction. Details of the acquisition were set out in the circular to the shareholders of the company dated 9 August 2002.

PLACEMENT OF NEW SHARES

In August 2002, The Group raised approximately HK\$25,000,000 from the placement of 784,500,000 new ordinary shares of the Company of US\$0.001 each at a subscription price of HK\$0.032 per share. The net proceeds were mainly used for the acquisition of Sota.

PLEDGE OF ASSETS

At 31 December 2002, the Group had pledged certain properties with a carrying value of US\$322,000 (2001: US\$2,024,000) and plant and equipment of US\$18,004,000 (2001: US\$2,500,000) to various banks for securing bank loans and general banking facilities granted to the Group.

CONTINGENT LIABILITIES

One of the Group's associates, 天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. ("TFT") is currently being sued by its bankers to repay bank loans of approximately RMB73.6 million. This amount has not been equity accounted for by the Group as TFT has net deficit at 31 December 2002. However, this amount has been guaranteed by another associate, 天津福家家具有限公司 Tianjin Fortune Furniture Co., Ltd. ("TFFCL"). Both TFT and TFFCL are currently in negotiations with the bankers of TFT for the restructuring of the borrowings of TFT and for rearranging the guarantees granted by TFFCL. As the negotiations have not been completed as of the date of the financial statements, the ultimate outcome cannot be determined by the directors, and accordingly, the effect of this litigation on the Group's share of TFFCL's net assets of approximately US\$2,566,000 at 31 December 2002 (2001: US\$3,852,000) has not been adjusted.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the Group employed approximately 1400 full time management, administrative and production staff in the PRC and Hong Kong. Total staff costs including directors' remuneration incurred during the year, amounted to US\$2,952,000.

For details, please refer to note 6 of the financial statements.

By order of the Board

Yang Ding-Yuan

Chairman

Hong Kong, 25 April 2003