

Chairman's Statement

Dear Shareholders,

The Group faced numerous challenges during 2001. Overshadowed by the recession in the global electronic industry, the re-shuffle of the domestic telecommunication sector and increasing competition in the industry, the Group's PCB operations which kept a highspeed growth rate during the past years recorded a minor increase of 1.34% in revenues from sales and 11.33% decrease in that from LCD operations this year. During the year, no signs of recovery in the domestic timepieces market resulted in an 8.44% decline of the Group's timepieces operations. Though the Group took many active measures to deal with it, there was still an obvious decline in consolidated profits recorded.

The Group (the Company and its subsidiaries) reported a consolidated turnover of approximately RMB829,038,000 for the year 2001, representing a 9.96% decrease over the previous year, with consolidated profit attributable to shareholders of approximately RMB52,939,000 which was approximately 23.78% lower than that of the previous year. Earnings per share for the year 2001 was RMB8.25 cents. The Directors propose to pay a final dividend for 2001 of RMB4 cents per share. Subject to the approval of the shareholders, the final dividend will be paid on 28th June, 2002 to all shareholders whose names appear on the Company's Register of Members on 17th May, 2002.

On 23rd February, 2001, Tian Ma completed its public offer of 16,500,000 A shares in the PRC and listing of its new shares on Shenzhen Stock Exchange, with net proceeds of approximately RMB352,981,000 raised. Upon completion of the offer, the Company's interest in Tian Ma was diluted from 68.34% to 59.85%.

On 7th December, 2001, the Company entered into an agreement with Peking Founder, pursuant to which, the Company would dispose 72,302,000 unlisted shares (representing 29% of the aggregate share capital in issue) of Fiyta, a subsidiary in which the Company held 52.24% stake, to Peking Founder at the consideration of RMB206,495,083. Upon completion of the disposal, Fiyta will cease to be the Company's subsidiary, and the Company will still hold 23.24% of its total issued share capital. However, the transaction shall be subject to the approval by the State Assets Bureau.

BUSINESS REVIEW

PCB

Turnover of the PCB operations of the Group for the year was RMB237,252,000, representing a 1.34% increase over the previous year, and its net profit after minority interests declined by 13.41% year on year to RMB62,316,000. The Group completed the major parts of its PCB expansion project by the mid of 2001 which now enables an annual output capacity of 250,000 sq. meters with substantially upgraded products. However, orders from the domestic telecommunication equipment manufacturers, which approximately accounted for 80% of sales from PCB operations, decreased obviously due to the influence by the implementation of the China Telecom spin-off program during the year. The output of PCB for the year was 113,000 sq. meters, representing a 24.67% decline year on year. Meanwhile, thanks to the efforts on higher-end and value-added products, sales from multi-layered boards increased by 26.90% over the previous year, representing approximately 20% growth in its share of PCB sales. However, the Group eventually recorded a fall in net profit due to a significant drop of gross profit margin of PCB operations resulting from increasing price competition in the industry and increased expenses for depreciation and rental incurred by its expansion project.

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LCD

Turnover and net profit after minority interests of the LCD operations were approximately RMB283,202,000 and RMB6,410,000 respectively, representing respective decreases of approximately 11.33% and 63.07% over the previous year.

The Group usually exported about 70% of its LCD products to Hong Kong, Europe and USA in the past years. However, the year of 2001 witnessed a recession in the global electronic industry and the 911 Event, and as a result, the Group failed to turn the tables and its revenue and profit suffered materially negative impacts, though the Group made every effort to restructure its product mix and achieved 60% growth in its sales of COG-LCD and TAB-LCD module products.

Timepieces

The Group's turnover and net profit after minority interests of the timepiece operations were approximately RMB161,593,500 and RMB9,433,000 respectively, representing respective decreases of approximately 8.44% and 53.08% over last year.

In view of a continuous overcapacity in the domestic timepiece industry for the year, the Group focused on restructuring its distribution network and actively strengthened the recovery of trade receivables and disposal of inventory. During the year, the Group set up four new timepiece chain stores in the cities of Kunming, Lanzhou, Xi'an and Urumchi. The Group has two chain stores in Urumchi so far.

BUSINESS PROSPECTS

A series of US economic releases have suggested that the nation's economy has shown signs of recovery, which was echoed by the Federal Reserve's comment in March 2002 that the US economy had begun to recover. Meanwhile, the China's economy is expected to sustain growth while the environment for industries will see positive turnaround.

For the middle to long-term, the Group is of the opinion that industries such as telecommunications, consumer electronic products, computer, mobile phone, etc. will see increasing demand and domestic manufacturers will further benefit from manufacturing cost advantages after China's accession into WTO, which will in turn help expand the Group's core businesses. The Group's business is also expected to grow along with continuous expansion of the domestic economy. In the coming years, the Group will further improve its technical level and product quality and expand production scale through technology upgrading and setup of new production lines. Meanwhile, the Group will enhance product research and development capacities, strengthen internal production control and quality management for stronger competitiveness and better profitability.

In order to respond to the rapid growth in high-density multi-layered PCB business, the Group will continue to upgrade its capacity for the inner layer board of multi-layered PCB, and enhance its production capacity of high-density interconnectivity boards and other high value-added PCB. For market expansion, the Group will actively seek to establish supplier relationships with international purchasers or OEM manufacturers.

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In early of the year, Tian Ma, a subsidiary of the Group, successfully made an additional public offer of A Shares and raised net proceeds of RMB352,981,000. The proceeds will be applied to for an additional color STN-LCD production line and further development of the production line of COG, TAB and COF module products. For the year 2002, the Group will continue to adjust its marketing strategy for LCD products, gradually reduce the proportion of low-end TN-LCD in its product mix, and aggressively expand mid- to high-end TN-LCD, STN-LCD products as well as module products into domestic and overseas markets.

The Group will maintain and enhance the market image of "Fiyta" as a domestic mid- to high-end brand name of timepieces, and continue to perfect and optimize its marketing network. After the approval by the State Asset Bureau and completion of the partial disposal of its stake in Fiyta by the Company to Peking Founder, Fiyta will form a joint venture with Founder Subsidiary to launch information products distribution operations and system integration operations.

FINANCIAL REVIEW

The financial condition of the Group has always been healthy. During 2001, the Group's financial situation turned more favorable with tightened budgetary management and capital control. The Group maintained a healthy capital structure and reasonable financial expenses amid the expansion of its major businesses. As at 31st December, 2001, the debt-equity ratio of the Group was 39.22%.

CORPORATE GOVERNANCE

The Group has committed diligent efforts to corporate governance. We are committed to achieving good results and rewarding shareholders through the Group's highly efficient and well managed operations. In 2001, the respective functions of various management departments were clearly spelt out with their internal performance assessments being gradually enhanced. The interests of the various subsidiaries were closely interwoven with the results of the Company. Concurrently, the Group's internal audit department has also further enhanced our internal monitoring and risk prevention system.

APPRECIATION

On behalf of the Board, I would like to express my sincerest appreciation for the hard work and enthusiasm of fellow colleagues and the whole-hearted support of shareholders and customers of the Group.

Li Zhi Zheng
Chairman

Hong Kong, 16th April 2002