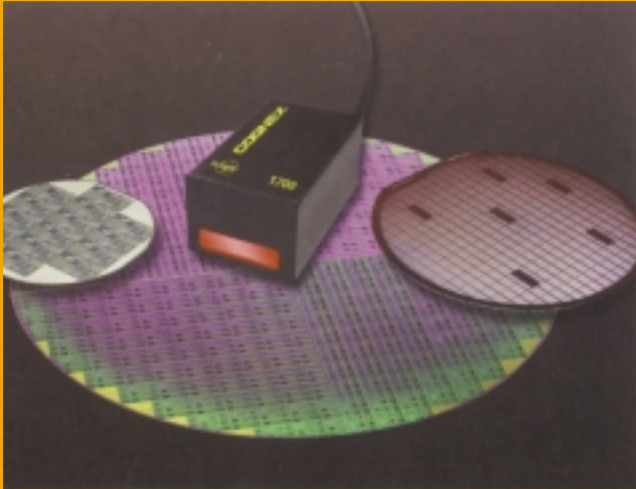


- Industrial Components



- NORI TAKE Grinding Wheel

COSMOS



- NAS Stainless Spring Wire

- COGNEX Wafer Reader

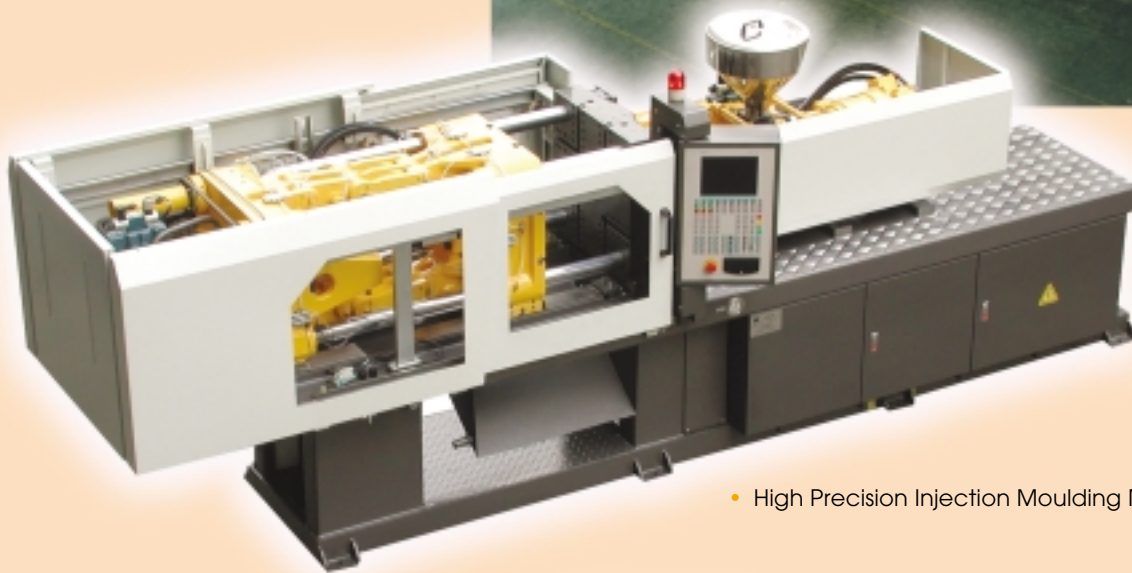


- COGNEX Machine Vision System

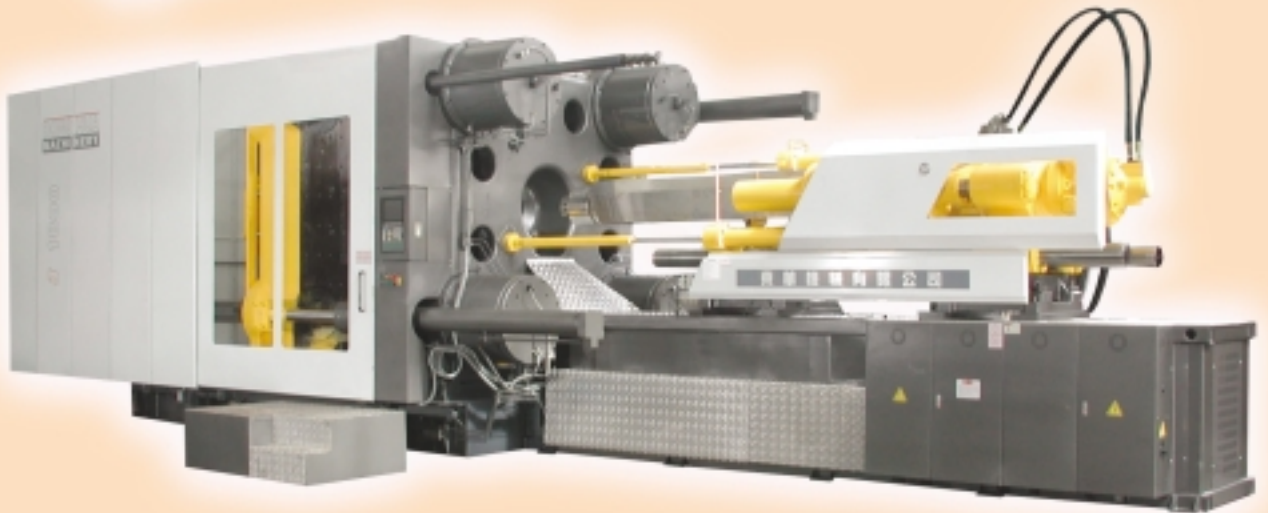
- SANYO DENKI Linear Servo System

- Two Platens Injection Moulding Machine

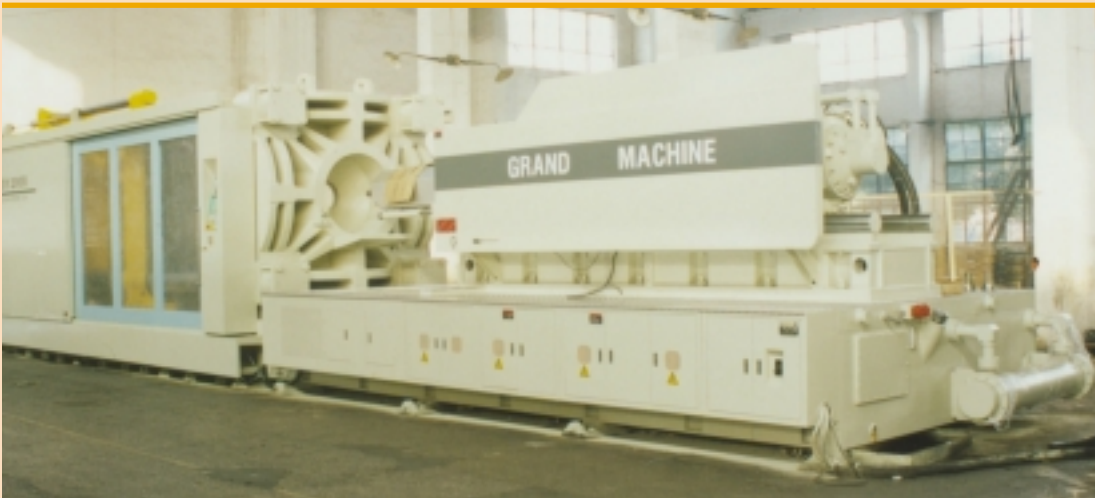
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- High Precision Injection Moulding Machine



- Two Platens Injection Moulding Machine



- C Series Injection Moulding Machine

Management Discussion and Analysis

Financial Statistical Highlights

	2001 HK\$'000	2000 HK\$'000 (restated)
Operating results		
Turnover	1,294,747	1,622,796
(Loss) profit from operations	(74,911)	36,132
(Loss) profit before taxation	(79,438)	28,497
(Loss) profit attributable to shareholders	(89,189)	6,315
(Loss) earning per share – Basic (cents)	(13.91)	0.99
(Loss) earning per share – diluted (cents)	N/A	N/A
Dividends per share (cents)	–	–
Dividend payout	–	–
Financial position at year end		
Total assets	1,395,069	1,645,859
Fixed assets	466,486	441,956
Quick assets	470,573	639,042
Net current assets	201,893	304,897
Shareholders' funds	579,854	671,181
Net asset value per share (cents)	90	105
Financial statistics		
Current ratio	1.31	1.37
Quick asset ratio	0.72	0.78
Gearing ratio	0.04	0.01
Total debt ratio	1.16	1.23

Review of Operations

Machinery

For the year ended 31st December, 2001, the consolidated turnover of the industrial machinery business of the Group amounted to approximately HK\$445,716,000, representing a decrease of 17% over last year. In the first quarter of 2001, the industrial machinery business still recorded a positive growth. However, the machinery market in the Mainland slid rapidly after the second quarter, particularly the market in the Guangdong Province. Sales of industrial machineries of the Group were directly affected by the unfavorable market conditions. In addition to the chaotic competition among the industry, the profit of machinery business was also affected. Accordingly, during the year, the Group adopted a number of measures, including streamlining some of the staff in China, stringent control on various charges and expenses, with a view to lower production costs and, being well-equipped, for facing the acute competition. The effect of the above measures will become observant over a period of time, therefore results of production cost cutting will only emerge until the fourth quarter. This reflects that the mechanism of the Group to adapt market changes should still be subject to further improvement.

During the year, the management through enhancing management of materials and account receivables improved and upgraded the quality of the assets, enriched part of the funds. Meanwhile, provisions had been made for inventories and bad and doubtful debts. As a result, the overall profit of the business has dropped to a lower level among recent years.

Looking ahead, the Group by absorbing professionals in China and overseas makes medium to long-term development plans for the industrial machinery business among which a technology transfer agreement has been entered in March 2002 between Wuxi Grand Tech Machinery Co., Ltd. of the Group and UBE Machinery Corporation Ltd. of Japan for a term of ten years to manufacture mega sized plastic injection moulding machines with twelve specifications under licence. As such industries like automobile and home appliances in China develop quickly, demand for high quality plastic parts produced by large-sized plastic injection moulding machines will be keen. The Group believes that through such co-operation, the large-sized plastic injection moulding machine business in the China will be enhanced. Meanwhile, the Group will be in a more advantageous position to participate in the international market competitions.

Following China's accession to the World Trade Organization ("WTO"), all industrial sectors undergo vigorous development, demand for advanced and good quality industrial machinery becomes gradually keen. The entry of foreign capital into the market of China generates potential demand for quality industrial equipment. The technological requirement of the market for plastic injection moulding machine and sheet metal forming and moulding machines for such features like high precision, energy saving, low noise will gradually be raised. The Group has made preparation accordingly. New moulding machine products will include all electrically driven plastic injection moulding machines, large-sized two-platen type large plastic injection moulding machines and multi-material co-injection plastic moulding

Management Discussion and Analysis

machines and so on. The content of sheet metal fabrication products will also include CNC turret type punching machine, precision press and hydraulic press machines. In addition, reforms of business flow will be conducted in sales series and after sales services in order to improve the supply chain management and enhance the level of satisfaction of customers.

Plastic Products and Plastic Processing

During the year under review, the Group's turnover of plastic business slightly increased by 10.4% over the same period of last year. Amid a difficult business environment, steady profit was still recorded. It was mainly attributable to the impact of both subjective and objective factors. Firstly, in respect of plastic processing business, improvement of processing means and decline of raw material prices have produced positive effect on costs. At the same time, apart from the processing plant in Dongguan, new plastic injection bases in Shenyang and Shuofang City in Jiangsu Province, China respectively established by the Group began to record profits since last year.



During the year under review, operating conditions for plastic food container and cutlery business improved significantly as a result of the business growth in the Mainland. As investment from food factories of foreign venture in China increased, demand for food containers will also soared substantially. The Group will strive to improve better hygiene conditions in production lines and good management to seek the confidence of customers. It is expected that the plastic container business will further develop. As the business develops relatively, a plan of investment in construction of a plant in the size of 16,000 sq.m. in Zhuhai with a clean room incorporated has been made so as to further expand the business. It is anticipated that production of the new plant will formally commence by the end of 2002. The facilities composed of more than eighty plastic injection moulding machines, extrusion machines, printing machines and packing machines will be installed.

During the year under review, the business of plastic optical products remained stable. However, since the United States (the "US") is the major market for such products, business prospect thus depends on economic recovery of the US market. In order to improve production quality and lower production costs, the Group will draw up plans to renew production facilities in the business to achieve further cost effectiveness. Planning ahead, the management prepares to use different materials to manufacture various new series of optical products to stimulate sales and seize market share.



The Group has focused on development of plastic products and plastic processing business. Our plastic processing business has always been export oriented, mainly by supplying plastic parts to foreign funded factories around the Pearl River Delta. Starting from 2001, the plastic processing business successfully extended directly to supply plastic parts to customers in the US and Japan. Therefore, the whole client network was enlarged. Moreover, the plastic injection mould workshop built for the purpose of plastic parts is also capable of providing good quality moulds to customers in Hong Kong and overseas. In view of a substantial increase in the number of foreign investors in the Yangtze River Delta and the northeastern provinces, many will need supply of plastic parts from the domestic plastic processing factories. With the experience in plastic processing, the Group believes it will seize the business

Management Discussion and Analysis



opportunity to expand the Group's plastic processing business in China. Currently, there are plans to construct large plastic processing bases in Dalian in Liaoning Province and Wuxi in Jiangsu Province, which will serve areas in the northeastern and eastern China by providing fine quality plastic processing services.

Audio Products

In 2001, strategic restructuring was conducted in the Group's audio business. Considerable obsolete inventories had been disposed of at price below cost and proper provisions had been made and hence additional losses were resulted. Furthermore, both sales volume and profit decreased due to the fact that customers were generally taking a hesitated attitude.

In the year under review, for the purpose of upgrading corporate quality, we underwent a structural reorganization, which involved management reshuffle. Slight increases in administration expenses had been resulted. Nevertheless, we believe a high quality management can boost operating efficiency and thus forge satisfactory return to shareholders in the future.



The image displays three different audio systems from the COSMOS brand. At the top left is the 'Mini Compo W/AM/FM PII Tuner & CD Player', a compact unit with two black speakers and a green faceplate. At the bottom left is the 'Tower Mini Music Centre', featuring a central tower unit with two CD drives and two black satellite speakers. On the right is the 'Folding Travel CD System', a portable device with a digital display showing '23:20' and a small antenna.

- Mini Compo W/AM/FM PII Tuner & CD Player
- Tower Mini Music Centre
- Folding Travel CD System

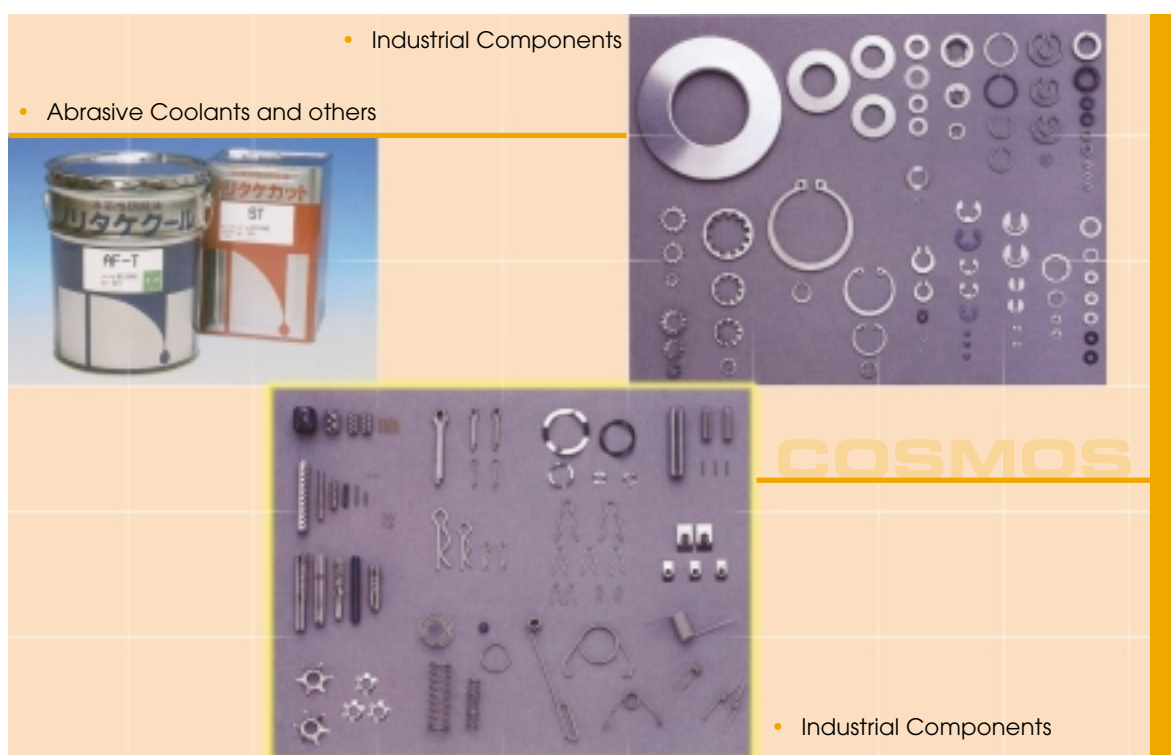
COSMOS

Conditions in the electronic markets have always been changing dynamically. Pressure will quickly mount on product demand once new technology or even new ancillary equipment launched. Operation problems will easily emerge especially when market demand becomes sluggish. Marketing strategy in the form of price competition is often needed to avoid cumulation of inventory and to discard the old and create novelty. Accordingly, a balance between the inventory level and cost must be struck to maintain competitiveness. It is expected that, after the business reorganization, market trends will be more closely projected and monitored while strengthening the internal corporate management. Brand new products will be launched from time to time. With the objective to improve the audio product business of the Group, strategic combinations of products should be able to meet the needs of different customers.

Management Discussion and Analysis

Printed Circuit Board Business

In the year of 2001, both sales volume and profit of printed circuit board business have not reach the anticipated targets. Owing to depression in the electronic sector, demand of printed circuit board was hit. In addition, as Gainbase Industrial Limited, which produced printed circuit board under the Group, was relocated to a newly built plant, expenditure has been increased accordingly. Profit of the Group was affected as a whole. However, the Group is convinced that, following the market recovery in 2002, the adequate utilization of facilities in the new plant, business input of large value added multi-layer printed circuit board, the Group's printed circuit board business will certainly develop in a steady tempo and reasonable return for the Group could be expected.



Trading Sector

In the year of 2001, the management conducted assets rationalization by sorting out non-performing assets. Bigger losses due to termination of machinery trading business in Guangzhou, China led to increased write-off of bad debts and provisions for doubtful debts and inventories. Trading business was further hit by customers' determination to reduce cost, increasing emphasis on knowledge of distributing channels than they used to be as well as enormous information provided by the Internet.

It is expected that industrial hardware, components and materials will remain as major trading products. With the accession to the WTO, China's economic growth will bring opportunity for taking in new customers. As a foreign venture, we anticipate that China will encourage import and export business by imposing low tax rates, which should improve business environment. At the same time, we do not underestimate the increasingly severe market competition and strict request for product quality. In order to understand market needs more quickly, the Group will actively participate in exhibitions, make use of trade magazines and information technology such as Internet effectively. Systematic analysis of different market needs will be carried out. Plans of building logistic centers in China to shorten flows of goods and reduce operation costs are underway.

Prospect

In the year ahead, manufacturing will still be the major business of the Group, of which the industrial machinery production, plastic products and plastic processing will continue to serve as the major sources of profit. While rationalizing trade business, the Group will act with caution on market needs and invest in the plastic and machinery business in a systematic way aiming at enhancing competitiveness of the Group. At the same time, the Group will broadly recruit professionals in China to enhance management of domestic business. Members of senior management of the Group will be added to ensure that the business strategy of the Group will be implemented effectively.



Contract signing ceremony of Grand and UBE