RESULTS AND DIVIDENDS

The audited net loss from ordinary activities attributable to shareholders for the year amounted to HK$76,197,000. Basic loss per share was 19.2 cents. The directors do not recommend the payment of any dividend for the year ended 31 December 2001.

BUSINESS REVIEW

The Group's turnover in 2001 was HK$175,486,000 (2000: HK$288,913,000), a decrease of approximately 39% from prior year. Loss attributable to shareholders was HK$76,197,000 (2000: HK$43,714,000).

In the year under review, the world's major export markets faced a widespread economic downturn. This was exacerbated by the "September 11" incident in the United States, which negatively affected the overseas consumer confidence. As a result, export orders declined significantly and the Group's manufacturing business was negatively affected. The overall gloomy economic climate also had certain impact on the Group's investment development. However the Board continued earnestly to diversify the group's business, with a primary focus of targeting at high potential markets in China. By capturing the huge market potentials and business ventures in appropriate segments, the Group seeks to enhance its future business prospects.

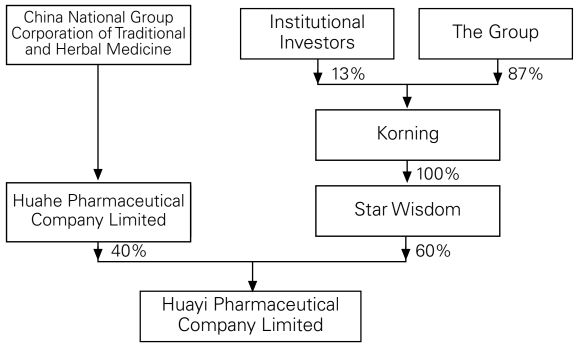
Manufacturing business

The sales of the existing high-end audio and visual product mix of the Group for the year of 2001, which included CD/VCD mechanism, CD players, VCD players, amplifiers and other high-end audio products amounted to HK$84,985,000, representing 49% of the Group's turnover (2000: HK$114,746,000 and 40% respectively). The sales of components and parts, which included cassette deck mechanism, car audio mechanism, high precision spring and different types of metal and plastic parts, amounted to HK$58,588,000, represented 33% of the Group's turnover (2000: HK$111,320,000 and 38% respectively). The sales of other non-audio products amounted to HK$31,913,000, representing 18% of the Group's turnover (2000: HK$62,847,000 and 22% respectively).

Geographically, sales to Europe, America, Hong Kong and other Asia markets (including the PRC) for the Group were 41%, 17%, 21% and 21% respectively (2000: 21%, 23%, 29% and 27% respectively).

Investment in pharmaceutical enterprise

Throughout 2001, the Group was actively pursuing pharmaceutical projects with excellent potential. The Group entered into a conditional sale and purchase agreement and a supplemental agreement on 2 January 2002 and 11 April 2002 respectively for the acquisition of an 87% equity interest in Korning (the "Agreements"). Pursuant to the Agreements, a sino-foreign joint venture, 華頤藥業有限公司(Huayi Pharmaceutical Company Limited) ("Huayi"), was set up on 26 July 2002. Korning beneficially owns a 60% interest of this joint venture through Star Wisdom. The total investment and registered capital of Huayi Pharmaceutical Company Limited were both RMB126 million. Through this joint venture, the Group has in effect formed a cooperative partnership with 中國藥材集團公司 (China National Group Corporation of Traditional and Herbal Medicine) ("China National Medicine"). The structure of the joint venture is as follows:



Huayi would, upon its full establishment, possess all intellectual properties of 16 medicines and related machineries and equipment, and working capital in excess of RMB60 million for business expansion. The acquisition would enable the Group to establish a unique bonding with China National Medicine and enhance the Group's long term competitive position in the pharmaceutical business in the PRC. China National Medicine is an authoritative and unequivocal leader in the Chinese pharmaceutical business in the PRC.

中國藥材集團公司(China National Group Corporation of Traditional and Herbal Medicine), formerly known as 中國藥材公司, was founded in 1955 and was a supervising body to the traditional Chinese medicine industry in the PRC. It has 41 enterprises members including 15 wholly-owned subsidiaries, 11 controlling enterprises and 15 joint ventures. The principal business include Chinese herbs, Chinese herbal medicine, Chinese patent medicine, etc. China National Medicine has been responsible for the statistical work of Chinese medicines for 38 years and maintains the only Chinese medicine information system and database in China. China National Medicine established a Chinese medicine system overseeing plantation, production, operation and management in the PRC and has sales outlets widely spread over the PRC, Japan, South East Asia and Europe. Pursuant to the joint venture agreement, 華禾藥業股份有限公司(Huahe Pharmaceutical Company Limited) ("Huahe") will contribute RMB50,400,000 worth of tangible and intangible assets into Huayi. They include all approvals, licences and other intellectual property rights, machineries and equipment, inventories and account receivables relating to the following four Chinese medicines:

(i) 威麥寧膠囊 (for curing lung cancer);

(ii) 咽速康氣霧劑 (for curing sore throat);

(iii) 七里膠囊 (for curing pains in joints and strained tendons); and

(iv) 通樂顆粒 (for curing constipation problem).

Furthermore, Huahe undertakes to transfer all intellectual property rights relating to an additional of 12 Chinese medicines to Huayi. Huahe has 7 shareholders including its founder and controlling shareholder, China National Medicine.

It was agreed that China National Medicine would use its best efforts and experience in the pharmaceutical business to support the joint venture to achieve a profit target of RMB50 million in the first 12 months of its establishment. As mentioned in the Group's circular to its shareholders dated 3 May 2002, the total investment was approximately HK$161,900,000 which included a premium of HK$99,840,000 payable to an independent third party for the acquisition of its interest in Korning. Such premium would be capitalized and recorded as goodwill for the Group. In terms of total investment and based on the target earnings of the joint venture in the first 12 months of its establishment, the price-earning ratio in respect of the investment is only 6.5 times, which compares favourably with market averages and is in the commercial interest of the Group. The Board believes that the acquisition would broaden the business scope of the Group. The Board also believes that by leveraging the supply and distribution network of China National Medicine, the Group's position in the pharmaceutical industry would be strengthened and the earning prospects could be improved. In the long run, the Group is charting of a new business direction and diversification strategy that would be beneficial for its development.

Internet phone business

In February 2001, the Group successfully acquired a 90% equitable interest in a sino-foreign joint venture for a consideration of HK$35 million. The principal business of the joint venture is to sell Internet phone sets in major cities in the PRC. As new competitors continued to enter the PRC market and initiated price wars, this investment had been affected to a certain extent. Customers expectation for higher sound quality also worsen the problem. To adopt a prudent approach, a provision of HK$21,047,000 has been made by the management. However, the management will closely monitor its performance.

In view of this, in order to strengthen the competitiveness of the product, the Group has invested HK$11.5 million in a subsidiary during the year. Such investment aimed at reducing the production cost by focusing on the research and development in relation to production technologies of Internet phones. New products are expected to satisfy the needs of different customers and enable the product to be marketed throughout the PRC. The Internet phone business is under the process of re-engineering and no profit contribution has been made to the Group at present.

Video-on-demand system business

Video-on-demand ("VOD") system is an investment in the re-engineering of the cable TV stations in the PRC. Since the first sale and purchase agreement entered into by the Group in May 2000, the Group beneficially owned as to 27% interest in the associated company, Global Cyber Limited ("Global Cyber"), as at 31 December 2001. The principal asset of Global Cyber is a 80% equitable interest in Shanghai Dazheng Worldvest Technology Company Limited, the PRC party of which is a Shanghai company with many years of research and development experiences. The joint venture is principally engaged in research and development and implementation of digitalized VOD system in the PRC, which involved in the re-engineering of the cable TV stations in the PRC by employing related software, servers and set top boxes. However, as the Group is current in dispute with the PRC party in relation to the underlying intellectual property rights of the investment, the PRC party has refused to provide any financial information of the joint venture to the Group. The Group has appointed its PRC lawyer to deal with this matter and may take legal proceedings in the PRC to protect the investment interests of the Group. Further announcements will be made as and when appropriate. The development potential of this investment is huge and the Group has been approached by various interested parties aiming at increasing the commercial value of the investment which the Group would benefit if the abovementioned dispute could be resolved by non-legal means.

Liquidity and financial resources

As at 31 December 2001, the Group's current assets amounted to HK$81,724,000, representing a decrease of approximately HK$47,708,000 as compared to the end of last year. Amongst them, accounts receivable decreased HK$18,911,000 to HK$9,575,000; inventories decreased HK$21,757,000 to HK$28,076,000; prepayments and other receivables dropped HK$6,276,000 to HK$3,813,000; cash and cash equivalents reduced HK$1,233,000 to HK$26,421,000.

Current liabilities amounted to HK$69,234,000, representing a decrease of HK$31,322,000 compared to the end of last year. Amongst them, accounts payable decreased HK$17,769,000 to HK$21,278,000; other payables and accruals reduced HK$5,707,000 to HK$17,766,000; interest-bearing bank loans and other borrowings dropped HK$7,554,000 to HK$26,271,000. Net current assets amounted to HK$12,490,000, representing a decrease of HK$16,386,000 as compared to the end of last year.

As for non-current assets, the amount was HK$423,829,000, representing an increase of HK$262,512,000 as compared to the end of last year. Amongst them, interests in associates increased HK$250,000,000; deposits raised HK$101,500,000; long-term investments decreased HK$80,000,000 to HK$1,000,000; goodwill amounted to HK$7,232,000; intangible assets reduced HK$4,468,000 to HK$1,085,000; fixed assets reduced HK$11,752,000 to HK$63,012,000. The Group's non-current liabilities were HK$2,229,000, increased by HK$1,263,000 as compared to the end of last year, resulting in the overall gearing ratio (the ratio of total liabilities to shareholders' equity) to be approximately 16%.

Generally speaking, the Group's assets were improved and the liabilities decreased significantly. The liquidity of the Group was able to maintain in a healthy condition and its financial resources kept on improving. The Board considered that raising funds by way of placing would enable the Group to allocate more resources to high earning potential and high growth businesses.

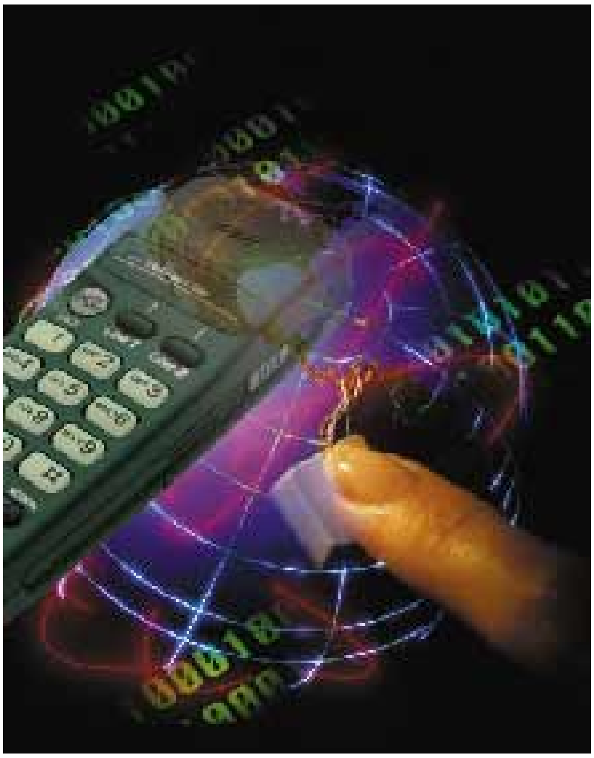
Capital structure

In February 2001, an aggregate of 22,800,000 share options were granted to certain directors and employees of the Group. The exercise price of the share options was HK$0.61 per share. All share options were exercised during the year. The consideration payable to the Group were HK$13,908,000. In order to support business diversification, the Group has raised funds through placing of new shares during the year. As at 31 December 2001, 520,750,673 shares were issued. The shareholders equity of the Group was approximately HK$433,219,000.

Placing of shares and use of funds

During the year 2001 and up to June 2002, the Group has raised funds through placing of new shares, the details of which are listed below:

Year	Announcement Date	Number of placing shares	Funds raised *(HK$)*	Use of funds
2001	7 February	45,600,000	30,600,000	Acquisition of a 90% interest in a sino-foreign joint venture engaging in Internet phone business
2001	25 May	137,600,000	170,100,000	Increase the Group's shareholding in Global Cyber of 17%
2001	23 August	86,000,000	107,500,000	General working capital and for future investment projects
2002	12 June	50,900,000	69,400,000	Capital injection to the pharmaceutical joint venture and general working capital



Pledge of assets

As at 31 December 2001, the Group pledged to the bank an amount with total book value of HK$21,924,000 (31 December 2000: HK$21,668,000), including the industrial property located in Hong Kong with carrying amount of HK$8,085,000 (31 December 2000: HK$8,298,000) and bank deposits of approximately HK$13,839,000 (31 December 2000: HK$13,370,000), in order to secure against the Group's general bank facilities.

PROSPECTS

Interest rates in major markets have been on the decline in 2001 aimed at stimulating domestic consumption and investment appetite. Under this low-interest rate environment, it is expected that the economy of the major cities would start to recover from the second half of 2002.

The Group's new investment in the pharmaceutical business would benefit from China's accession to the World Trade Organization ("WTO"), the continuous steady growth of China's economy and increasing average per capita income of her population. Post WTO accession, the traditional Chinese medicine will face new challenges. However, the following factors enable the industry to maintain its competitive edge. In terms of sourcing, the State has decreed the protection of natural grown herbs and the country's ecology. In addition, a number of species having been successfully introduced from abroad for domestic farming. Dependence for imports is gradually reducing. In areas of research and development of traditional Chinese medicines, various enterprises have established research centers of international standards thereby enabling the development of quality medicines that can reach the significant overseas markets. Further, the protection of intellectual property rights provides the industry with much room and incentive for product development. It is expected that post WTO accession, the Chinese traditional medicine industry will continue to be an expanding pillar industry in China. The Group will leverage on the synergic alliance with China's leading pharmaceutical enterprise — China National Medicine, to explore more business opportunities including the extension of its sales/distribution network, research and development of new products, strengthening marketing and promotion to establish Chinese medicine brand recognition and the creation of numerous high potential investment opportunities.

In respect of traditional manufacturing, the Group will strive to secure more orders from internationally renowned clientele. With the additions of the new pharmaceutical business, which has demonstrated a strong profit foundation and excellent growth potential, the Group believes that the pharmaceutical investment will contribute respectable profits for the Group in the future.

Looking into the future, the Group would principally focus on the development of the Greater China market. Given the emerging business opportunities, the Group would, when the market environment improves, consider to raise more funds from the capital market to finance new business projects and business diversification. By investing in more high growth and high potential projects, the Group believes that return for shareholders can be maximized in the future.

APPRECIATION

The Directors wish to express their sincere thanks to the banks, customers, suppliers and all parties concerned for their support and to all staff of the Group for their hard work during the year. Moreover, Mr. Leung Wah Chai, one of the founders of the Group, has resigned as chairman of the Company with effect from 19 April 2002. Mr. Leung remains an executive director of the Company. The Board would like to take this opportunity to express its gratitude to Mr. Leung for his contributions for years to the Group.

ON BEHALF OF THE BOARD

Cheng Kwok Choi, Godwin
Director

Hong Kong, 12 August 2002