

The directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries have consisted of the manufacture and trading of compact disc ("CD") players, video CD ("VCD") players, CD and VCD player mechanisms, amplifiers, computer peripherals, car audio mechanisms, cassette deck mechanisms and related component products, and non-audio products including personal office appliances and medical devices. During the year, the Group expanded its activities to include the sale of Internet phone sets and provision of related services by way of agency in the People's Republic of China (the "PRC"). Other than this, there were no changes in the nature of the Group's principal activities during the year.

Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements.

Through an associate of the Group, the Group's activities also include the research and development of video-on-demand systems in the PRC which involves the re-engineering of the existing cable TV stations in the PRC by employing related operating software, servers and set-top boxes.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal business segments and geographical segments of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 73.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2001.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 74. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with explanations therefor, are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution in specie were nil (2000: Nil). The Company's share premium account in the amount of HK\$271,195,000 (2000: HK\$95,220,000) may be distributed in the form of fully paid bonus shares.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the respective percentages of the Group's purchases and sales attributable to major suppliers and customers are as follows:

- (a) Percentage of purchases attributable to:
 - the largest supplier 6%
 - the five largest suppliers 24%

- (b) Percentage of sales attributable to:
 - the largest customer 18%
 - the five largest customers 63%

As far as the directors are aware, neither the directors of the Company, their associates, nor shareholders, which to the knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest suppliers or customers.

HONORARY CHAIRMAN AND DIRECTOR

Honorary chairman:

Zuo Tai Hang (appointed on 30 April 2002)

Honorary director:

Xia Zhi Wu (appointed on 23 June 2002)

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Butt Wing Han
Cheng Kwok Choi, Godwin
Cheng Shu Wing
Guo Duen How, Tom
Kao Ying Lun
Leung Wah Chai (resigned as Chairman on 19 April 2002)
Wu Fred Fong

Independent non-executive directors:

Choy Tak Ho (appointed on 13 June 2001)
Tsui Chun Chung, Arthur (appointed on 4 June 2001)
Chan Wai Dune, Charles (resigned on 4 June 2001)
Wen Carson (appointed on 22 January 2001 and resigned on 13 June 2001)
Tsang Link Carl, Brian (resigned on 1 February 2001)

In accordance with the Company's bye-laws, Madam Butt Wing Han, Messrs. Cheng Shu Wing, Leung Wah Chai, Choy Tak Ho and Tsui Chun Chung, Arthur will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Except for the chairman, all of the directors, including the independent non-executive directors, are subject to retirement by rotation in accordance with the Company's bye-laws.

BIOGRAPHICAL DETAILS OF THE HONORARY CHAIRMAN, HONORARY DIRECTOR AND DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Honorary chairman

ZUO Tai Hang, aged 54, joined the Group in 2002. He is currently the general manager of China National Group Corporation of Traditional and Herbal Medicine. He is also a member of the China Association for International Friendly Contact, the China Association of Industrial Economics and the Investment Association of China. Mr. Zuo obtained his Bachelor Degree at the University of Science and Technology, Beijing in the 1970s. After his graduation, he was involved in the management of Shoudu Iron and Steel Company. In the 1980s, he became a member of the Beijing Economic Committee, the State Economic Committee, and the State Commission for Restructuring the Economic Systems, and was a minister involved in the reform and management of state-owned enterprises. In the 1990s, Mr. Zuo worked in the State Economic and Trade Commission and was involved in policy and macro-economics research. He was also a vice-minister of the Economic Research Counselling Centre and a vice-secretary of the Academic Association of the State Economic and Trade Commission. He received an award in the form of subsidy from the central government in 2000 for his extra-ordinary contribution. The award was to give special recognitions to those experts with extra-ordinary contribution to the country. For many years Mr. Zuo has been involved in macro-economic management, economic research and counselling work in central government departments and has a thorough knowledge of the reform, restructuring, re-engineering and theory and practices of continuous improvement of the PRC state-owned enterprises. He has participated in the research, drafting and discussion of national economic related policies and has published many articles in various reputable domestic newspapers and magazines.

Honorary director

XIA Zhi Wu, aged 75, joined the Group in 2000. He graduated from the Tsing Hua University, in the PRC, and worked in the central government offices after graduation. He was a director of the Bureau of Government Offices Administration and a secretary general of the State Economic Commission. He is now the vice president of the China Federation of Industrial Economics, and advises the Group regarding strategies and business model for investing in the PRC.

Executive directors

BUTT Wing Han, aged 61, is the general manager and one of the founders of the Group. She is responsible for the overall corporate policy-making, strategic planning, general management, and monitoring of the manufacturing and marketing activities of the Group. She has more than 30 years of experience in the electronics industry. She is the spouse of Leung Wah Chai.

CHENG Kwok Choi, Godwin, aged 45, joined the Group in 1994 and is the deputy general manager of the Group. He graduated from the Hong Kong Baptist University, where he majored in business management. He has about 25 years of practical experience at senior managerial level in the manufacturing, banking and financial fields. He was responsible for fund management and trade and corporate finance management prior to joining the Group. He now supervises the overall financial management of the Group and also participates in corporate strategic planning.

BIOGRAPHICAL DETAILS OF THE HONORARY CHAIRMAN, HONORARY DIRECTOR AND DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (continued)

Executive directors (continued)

CHENG Shu Wing, aged 53, joined the Group in 2000 and has extensive experience in the banking and securities industries in Hong Kong and has been active in financing, investment advisory and fund management activities. He is currently a director of an investment bank in Hong Kong. Mr. Cheng holds a Bachelor Degree in Business Administration from The Chinese University of Hong Kong. He is responsible for the new business development of the Group.

GUO Duen How, Tom, aged 57, joined the Group in 2000 and has over 25 years of extensive banking experience including corporate finance, project finance, international trade financing, credit, corporate management policy and administration. He held senior positions in a number of international banking institutions and is currently a director of an investment bank in Hong Kong. He holds a Bachelor Degree of Commerce from Concordia University of Canada. He is responsible for the new business development of the Group.

KAO Ying Lun, aged 49, joined the Group in 2000 and has over 20 years' business and professional experience of which about 15 years have been gained in investment banking, corporate finance and financial advisory fields. He sits on the board of a number of private investment/listed companies. He holds a Bachelor of Business Administration (Honours) Degree from a Canadian university and is a Chartered Accountant qualified in Canada. He is responsible for the new business development of the Group.

LEUNG Wah Chai, aged 64, is one of the founders of the Group and resigned as the Chairman of the Company with effect from 19 April 2002. He is responsible for the overall corporate policy-making, strategic planning and managing of important public affairs. He has more than 45 years of practical experience in the mechanical engineering, precision optical instruments and high-end audio/visual industries. He is a director of the China Association of Enterprises Foreign Investment, in the PRC; an executive director of The Association of Overseas Investors, in Guangdong, the PRC; a Hong Kong appointed member of The Chinese People's Political Consultative Conference - the 8th Committee of Guangdong Province; and a member of The Selection Committee for the First Government of the Hong Kong Special Administrative Region. He is the spouse of Butt Wing Han.

WU Fred Fong, aged 55, joined the Group in 2000 and has over 21 years' broad experience in corporate planning, corporate finance, direct investment and consulting with public companies in Canada and Hong Kong. He is currently a director of an investment bank in Hong Kong. He holds a Master of Business Administration Degree from York University of Canada. He is a Chartered Accountant qualified in Canada and a Fellow member of the Hong Kong Society of Accountants. He is responsible for the new business development of the Group.

BIOGRAPHICAL DETAILS OF THE HONORARY CHAIRMAN, HONORARY DIRECTOR AND DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (continued)

Independent non-executive directors

CHOY Tak Ho, aged 74, joined the Group in 2001 and has many years of experience in business administration. He is a director of Union International (H.K.) Company Limited. He is also a member of The National Committee of the Chinese People's Political Consultation Conference; the honorary life chairman of the Chinese General Chamber of Commerce Hong Kong and a member of The Selection Committee for the First Government of the Hong Kong Special Administrative Region.

TSUI Chun Chung, Arthur, aged 47, joined the Group in 2001 and has over 20 years experience in auditing, accounting and corporate finance. He is a certificated member of the Certified General Accountants' Association of Canada; and a fellow member of The Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. He graduated from the Institute for Financial Management, a joint body of the Manchester Business School and the University of Wales, and received a Master of Business Administration degree. He is currently a finance director of a high-tech company listed on the NASDAQ in the United States of America.

Senior management

CHENG Kwok Fai, aged 49, joined the Group in 1985 and is the sales and marketing director of a subsidiary. He holds a work study certificate from the British Institute of Engineering Technology and has over 25 years of experience in mechanical engineering in the electronics industry. He currently supervises all of the sales and engineering projects, as well as product design and development in electronic products.

CHIU Lai Chun, Rhoda, aged 37, joined the Group in 1994 and is the company secretary and finance manager of the Group. She is an associate member of the Hong Kong Society of Accountants and a Fellow member of the Association of Chartered Certified Accountants. She worked for an international public accounting firm in Hong Kong for about 7 years prior to joining the Group.

LAU Kui Tin, aged 55, joined the Group in 1985 and is the manager of the Quality Control Department of a subsidiary. Prior to joining the Group, he worked in the quality control field in various international electronics manufacturers for over 20 years.

LEUNG Kin Keung, aged 43, joined the Group in 1986 and is the general manager of Dongguan Yanion Electronics Manufacturing Limited and Dongguan Yanion Mould & Die Manufacturing Limited in the PRC. He graduated from Kwai Chung Technical Institute and also holds a Diploma in Business Management from the Hong Kong Polytechnic University. He has about 15 years of working experience in designing and making metal moulds, manufacturing components and assembling various electronics products. Between 1991 to 1993, he was the general manager of two United States based companies. He is the son of Leung Wah Chai. He is responsible for the management of the manufacturing operations of electronic products of the Group.

BIOGRAPHICAL DETAILS OF THE HONORARY CHAIRMAN, HONORARY DIRECTOR AND DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (continued)

Senior management (continued)

ZHAO Xing Huan, aged 45, joined the group in 2002 and is the Chief Officer, China Business Development of the Group. Mr. Zhao is a qualified Economist and Accountant in the PRC. He was a specially contracted researcher of the South East Asia Institute of Jinan University in Guangzhou. Mr. Zhao held a number of senior management positions and directorship with public and private companies including the managing director of Guangdong Capital Holdings Limited, chairman of Guangdong Securities Limited, director of Citybus Limited, chief executive director of Guangdong Investment Limited and managing director of New Ocean Green Energy Holdings Limited etc.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

At the balance sheet date, the directors and their associates had the following beneficial interests in the share capital of the Company and its associated corporations, as recorded in the register required to be kept pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

Name of director	Number of ordinary shares in the Company	
	Personal interest	Corporate interest*
Butt Wing Han	8,915,250	2,983,500
Cheng Shu Wing	600,000	–
Guo Duen How, Tom	2,800,000	–
Kao Ying Lun	5,000,000	–
Leung Wah Chai	33,915,600	9,783,500
Wu Fred Fong	5,000,000	–
	56,230,850	12,767,000

* Kamga Investment Limited held 2,983,500 shares in the Company. Leung Wah Chai and Butt Wing Han are controlling shareholders and directors of Kamga Investment Limited. Bestbond Company Limited held 6,800,000 shares in the Company. Leung Wah Chai is a controlling shareholder and director of Bestbond Company Limited.

The interests of the directors in the share options of the Company are separately disclosed in the Section "Share option scheme" below.

Other than as disclosed above, none of the directors and their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 30 January 2001, the Company adopted a revised share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. On the same date, the share option scheme (the "Old Scheme") adopted on 30 September 1991 was cancelled. Eligible participants of the Scheme include the Company's executive directors and other eligible employees of the Group. The Scheme became effective on 30 January 2001 and, unless otherwise cancelled or amended, would remain in force for 10 years from that date. The maximum number of unexercised share options permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each employee shall not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

Subsequent to the recently amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") with effect from 1 September 2001, no further share options were granted to any full-time employee or executive or non-executive director of the Company or the Group. All share options granted prior to the effective date of Chapter 17 of the Listing Rules were either exercised or lapsed. No share options granted remained outstanding as at 31 December 2001. Pursuant to the existing terms of the Scheme, certain terms need to be amended in order to comply with the new requirements under Chapter 17 of the Listing Rules. In order to comply with the new requirements, an amended share option scheme was approved in the special general meeting held on 7 June 2002 (the "New Scheme") and the Scheme was terminated accordingly on that day. The directors of the Company consider that the adoption of the New Scheme is in the interests of the Company and its shareholders as a whole, because it enables the Company to reward and provide incentives to its employees and shareholders of the Group. The details of the New Scheme are set out in note 33(b) to the financial statements. As of the date of approval of these financial statements, no share options have been granted under the New Scheme.

SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name of director	Number of shares options				Outstanding as at 31 December 2001
	Outstanding as at 1 January 2001 <i>(Note 1)</i>	Granted during the year <i>(Note 2)</i>	Exercised during the year <i>(Note 3)</i>	Lapsed during the year <i>(Note 1)</i>	
Butt Wing Han	800,000	1,000,000	(1,000,000)	(800,000)	–
Cheng Kwok Choi, Godwin	200,000	500,000	(500,000)	(200,000)	–
Cheng Shu Wing	–	600,000	(600,000)	–	–
Guo Duen How, Tom	–	3,300,000	(3,300,000)	–	–
Kao Ying Lun	–	5,000,000	(5,000,000)	–	–
Leung Wah Chai	800,000	1,700,000	(1,700,000)	(800,000)	–
Wu Fred Fong	–	5,000,000	(5,000,000)	–	–
	1,800,000	17,100,000	(17,100,000)	(1,800,000)	–
Other employees in aggregate	2,170,000	5,700,000	(5,700,000)	(2,170,000)	–

Notes:

1. The number of share options outstanding as at 1 January 2001 were granted on 23 February 2000 at nil consideration, and entitled the holders to subscribe for ordinary shares of the Company at an exercise price of HK\$1.81 per share and were exercisable during the period from 23 August 2000 to 25 October 2001. The Company's share price at the date of grant was HK\$1.80 per share. As at 25 October 2001, all these outstanding share options remained unexercised and therefore lapsed.

2. On 6 February 2001, the Company granted a total of 22,800,000 share options to certain employees and directors at a cash consideration of HK\$1.00 per grantee, which entitled the holders to subscribe for ordinary shares of the Company at an exercise price of HK\$0.61 per share and were exercisable during the period from 26 February 2001 to 25 February 2002. The Company's share price at the date of grant was HK\$0.73 per share.

3. The share options detailed in 2 above, were exercised in full in three tranches of 19,100,000, 1,000,000 and 2,700,000 share options on 26 February 2001, 2 March 2001 and 7 March 2001, respectively.

In the first tranche, Messrs. Cheung Shu Wing, Guo Duen How, Tom, Kao Ying Lun and Wu Fred Fong exercised their share options in full. A total of 5,200,000 share options was granted to other employees was also exercised on that date. The Company's share price as at that date was HK\$0.67 per share.

In the second tranche, Mr. Cheung Kwok Choi, Godwin exercised his outstanding share options in full. A total of 500,000 share options granted to other employees was also exercised on that date. The Company's share price as at that date was HK\$0.75 per share.

In the last tranche, Mr. Leung Wah Chai and Madam Butt Wing Han exercised their outstanding options in full. The Company's share price as at that date was HK\$1.02 per share.

Summary details of the Company's share option scheme are also set out in note 26 to the financial statements.

SHARE OPTION SCHEME (continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year because the directors are of the opinion that the values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself. Furthermore, all share options granted prior to the revisions to Chapter 17 of the Listing Rules becoming effective on 1 September 2001, were fully exercised or subsequently lapsed and no further share options were issued after 1 September 2001. The directors consider that such disclosure does not give additional value in view of the above mentioned limitations surrounding these models.

DIRECTORS' INTERESTS IN CONTRACTS

Except for those transactions set out in note 32 to the financial statements, no director had a beneficial interest in any material contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, no person, other than the directors of the Company and the companies controlled by them, whose interests are disclosed under the heading "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded in the register maintained pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

During the year, the Group had certain connected transactions, further details of which are included in note 32 to the financial statements.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors and of the five highest paid individuals in the Group are set out in note 7 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in accordance with the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises all of the independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire at the forthcoming annual general meeting and will not seek for reappointment at the meeting.

ON BEHALF OF THE BOARD

Cheng Kwok Choi, Godwin

Director

Hong Kong
12 August 2002