

Report of the Directors

The directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2002.

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. During the year, the Group expanded its activities to include the manufacturing, trading and contracting of Chinese medicines products 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.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal business segments and geographical segments for the year ended 31 December 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 67.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2002.

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 68. 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 thereof, are set out in note 27 to the financial statements.

Report of the Directors (continued)

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 on note 28 to the financial statements and page 26 respectively.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution in specie were Nil (2001: Nil). The Company's share premium account in the amount of HK\$315,215,000 (2001: HK\$271,195,000) 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	5%
	• the five largest suppliers	21%
(b)	Percentage of sales attributable to:	
	• the largest customer	21%
	• the five largest customers	64%

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.

Report of the Directors (continued)

HONORARY CHAIRMAN AND DIRECTOR

The honorary chairman and the honorary director of the Company during the year and up to the date of this report were:

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

Tsui Chun Chung, Arthur

In accordance with the Company's bye-laws, Messrs. Cheng Kwok Choi, Godwin, Guo Duen How, Tom and Wu Fred Fong 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.

Report of the Directors (continued)

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 55, joined the Group in 2002. He is currently the general manager of China National Group Corporation of Traditional and Herbal Medicine ("China National 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 76, joined the Group in 2000. He graduated from the Qing 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 62, 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 46, 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.

CHENG Shu Wing, aged 54, 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.

Report of the Directors (continued)

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

Executive directors (continued)

GUO Duen How, Tom, aged 58, 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 50, 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 an HBA Degree (Honours Business Administration Degree) from Richard Ivey School of Business, The University of Western Ontario and is a Chartered Accountant qualified in Canada. He is responsible for the new business development of the Group.

LEUNG Wah Chai, aged 65, 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 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 56, 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 Schulich School of Business, 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.

Independent non-executive directors

CHOY Tak Ho, aged 75, 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 48, 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.

Report of the Directors (continued)

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

Senior management

ZHAO Xing Huan, aged 46, joined the group in 2002 and is the Chief Officer, China Business Development of the Group and the Director and Chief Financial Officer of Huayi. 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.

ZHAO Run Huai, aged 46, joined the Chinese Pharmaceutical Business Division of the Group in 2002. He is the Director and General Manager of a subsidiary, Huayi. Mr. Zhao is a Licensed Pharmacist in mainland China. He graduated from Lanzhou University, PRC where he majored in Botany. Prior to joining the Group, he worked with China National Medicine at senior managerial level responsible for herbal medicine production, information resources survey, technology development, information and quality control for over 20 years. Mr. Zhao now supervises the overall management and business development of the Group's Chinese pharmaceutical business.

CHEN Bao, aged 39, joined the Chinese Pharmaceutical Business Division of the Group in 2002. He is the Vice General Manager of a subsidiary, Huayi. He holds a Master Degree of Hua Dong Polytechnic University, PRC. He has about 15 years of practical experience in Chinese pharmaceutical field. He was responsible for organizing a sino-foreign joint venture, technology re-engineering and human resources management prior to joining the Group. Mr. Chen is now responsible for production management of the Group's Chinese pharmaceutical business.

SHI Xiao Hai, aged 39, joined the Chinese Pharmaceutical Business Division of the Group in 2002. He is the Sales Superintendent of a subsidiary, Huayi. He graduated from the Chinese Medical School of Hei Long Jiang University, PRC where he majored in Medicine Production Engineering. In addition, he holds a Master of Business Administration Degree from Qing Hua University, PRC. He has about 15 years of practical experience and worked with several well-known medicine institutions, responsible for Chinese pharmaceutical medicine production, sales management, marketing and promotion, and general administration at senior level prior to joining the Group. Mr. Shi is now responsible for sales management and marketing development of the Group's Chinese pharmaceutical business.

CHIU Lai Chun, Rhoda, aged 38, joined the Group in 1994 and is the company secretary and finance manager of the Group. She holds a Master of Business Administration Degree from the University of Strathclyde, United Kingdom. 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.

CHENG Kwok Fai, aged 50, 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.

LAU Kui Tin, aged 56, 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.

Report of the Directors (continued)

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	100,000	–
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	–
	55,730,850	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.

Report of the Directors (continued)

SHARE OPTION SCHEME

Pursuant to ordinary resolutions passed on 7 June 2002, the Company approved the adoption of a new share option scheme (the "New Scheme") and the termination of the then existing share options scheme adopted on 30 January 2001. Under the New Scheme, the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The New Scheme is effective for the period from 7 June 2002 to 6 June 2012. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the New Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the New Scheme (the "General Scheme Limit") provided that, inter-alia, the Company may seek approval of the shareholders at a general meeting to refresh the General Scheme Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme may not, subject to shareholders approval, exceed 30% of the share capital of the Company in issued from time to time.

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

	Number of share options				
	Outstanding as at 1 January 2002	Grant during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2002
Name of director:					
Butt Wing Han	-	5,000,000	-	-	5,000,000
Cheng Kwok Choi, Godwin	-	500,000	-	-	500,000
Cheng Shu Wing	-	600,000	-	-	600,000
Choy Tak Ho	-	570,000	-	-	570,000
Guo Duen How, Tom	-	1,150,000	-	-	1,150,000
Kao Ying Lun	-	5,000,000	-	-	5,000,000
Leung Wah Chai	-	5,000,000	-	-	5,000,000
Tsui Chun Chung, Arthur	-	570,000	-	-	570,000
Wu Fred Fong	-	5,000,000	-	-	5,000,000
	-	23,390,000	-	-	23,390,000
Directors and executives of Huayi, and eligible employees	-	21,000,000	-	-	21,000,000

On 21 October 2002, the company granted a total of 44,390,000 share options to certain eligible participants and directors of the Group 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\$0.79 per share and were exercisable during the period from 5 November 2002 to 4 November 2003. The company's share price at the date of grant was HK\$0.79 per share. Summary details of the Company's share option scheme are also set out in note 27 to the financial statements.

As at the date of this report, no share options granted have been exercised.

Report of the Directors (continued)

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. Share 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. 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 33 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 2002, 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 34 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 35 to the financial statements.

Report of the Directors (continued)

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

During the year, Ernst & Young, who acted as auditors of the Company for the year 2001, resigned and Horwath Hong Kong CPA Limited were appointed as auditors of the Company. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cheng Kwok Choi, Godwin

Director

Hong Kong
23 April 2003