MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND DIVIDENDS

Audited net loss from ordinary activities attributable to the shareholders for the year amounted to HK$52,606,000. Loss per share was 9.2 cents. The directors do not recommend the payment of any dividend for the year ended 31 December 2003.

OPERATING ENVIRONMENT

There were a few political and economic deterants during the year under review which had significant negative impacts on the Group's core businesses and, for that matter, the businesses of many operators/manufactures in the region.

The outbreak of severe acute respiratory syndrome (SARS) in the region in early 2003 did not benefit business development generally. The SARS scare lingered on for an extended period although the outbreak was contained by the middle of 2003, the economy of those counties severely affected was able to gradually creep back however former expectations had to be unavoidably revised to a more modest level.

The Iraqi war and subsequent hostilities felt throughout North America, Europe and parts of Asia did not encourage consumer sentiment especially for consumer electronics in the affected countries. As a result orders became even more difficult to obtain enabling buyers to suppress prices. Suppliers and manufactures had little alternatives and in many occasions had to accept buyers' demands even at a minimal margin basis. Faced with the above adversities, the Group had to make the difficult choices in order to preserve the long term viability of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

CORPORATE RESTRUCTURING AND DIVERSIFICATION

Following the Group's transformation and diversification initiative first started in 2000, the restructuring phase of the Group's business is essentially complete at year end. For a stretch of about six years, the Electronics Business, the then core business of the Group, continued its downward trend. The Electronics Business had been suffering from declining profit margin, lack of breakthrough in new product development, heightened competition and stagnant growth. Significant operating losses in each of the last six years had been recorded by the Electronic Business with little sign that the business could be turned around. The conceived need of a few years ago for a major restructuring finally actualized during the year, through the disposal of the Electronics Business ("Disposal"). The Group is in a better position to shield itself from the continuing losses that it would have to endure further if the Disposal had not been consummated. During the year, and as part of the restructuring, the Group also took the opportunity to permanently wind up the other investment projects (namely joint venture projects in IP phone and Video-on-demand) which were considered to have some potentials in the high-tech era. Due to the high-tech bust, fund raising difficulties, severe market changes and consequential operating difficulties, these projects had been permanently suspended during the year. As the associated losses relating to these investment projects have been fully provided for in the prior year, the effect of such restructuring on the current year's financial results was relatively moderate. After the above restructuring, the Group survived the recession, the 911 terrorist attack and the SARS with a renewed vigilance. The restructuring therefore afforded the Group a fresh start, and an opportunity to refocus on other more profitable business prospects.

During 2003, the Group had hoped to concentrate its efforts in building the pharmaceutical business. Although the Group has had no previous operating experience in the field, the Group believed this market would provide substantial growth potential. Through the investment in Korning Investments Limited ("Korning") and the formation of Huayi Pharmaceutical Company Limited ("Huayi"), a sino-foreign joint venture, the Group has effectively teamed up with 中國葯材集團公司 (China National Group Corporation of Traditional and Herbal Medicine – "China National Medicine"), one of the leaders in the pharmaceutical business in China. With the latter's experience and resourcefulness, the pharmaceutical investment was considered to be a right direction for the Group in building a new core business which the Group needed. However, for reasons unforeseen at the time of investment, the performance of the pharmaceutical business was significantly below expectation. Further elaboration on the performance of the Pharmaceutical Business is discussed in the Business Review section.

As entrenched in the Group's business policy, the principal business of the Group is investment holding. The Group's business development is directed to expanding into a more diversified investment portfolio through investment, acquisitions and strategic alliances. Through such cooperation, the Group seeks to thrive in markets of great potential primarily through inorganic growth, particularly in Greater China. The intent is to engage in markets and businesses which would in the long-run improve earnings and pay off for the Company's shareholders. The refocusing of the Group in the pharmaceutical business is a step forward and should only be regarded as the start of a new phase of diversification. There will be many more opportunities and hence further diversification into other businesses as the Group continues to evolve. With the unprecedented growth in China, a market the Group is keenly focusing on, the Group will have ample opportunities for enhancing its earnings potentials through investments, acquisitions and strategic alliances.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW

The Group's turnover in 2003 was HK$177,949,000 (2002: HK$185,187,000), a slight decrease of 4% from prior year. The turnover of Pharmaceutical Business experienced a decrease of 14%, while the turnover of the Electronic Business experienced a slight decline of 2%. In the year 2002, the Group had made substantial provisions on past investment projects which lead to the loss attributable to shareholders of HK$322,718,000. However, since no substantial provision was made and cost control policies were adopted, the loss attributable to shareholders decreased to HK$52,606,000 for the year.

Geographically, sales to America, Europe, China, Hong Kong and other Asian markets for the Group were 41%, 28%, 15%, 9% and 7% respectively (2002: 35%, 30%, 20%, 10% and 5% respectively).

Electronics Business

The Electronics Business comprised the manufacture and trading of audio and video products and components. During the year and especially in the first half of 2003, the Electronics Business continued to face adverse operating conditions resulting from adverse operating environment leading to fierce competition, declining orders and declining margins. Sales of audio and video products for 2003, which included CD/VCD players, amplifiers and components, amounted to HK$131,690,000, representing 74% of the Group's turnover (2002: HK$116,946,000 and 63% respectively). Sales of components and parts, including cassette deck mechanisms, car audio mechanisms, high precision springs, difference types of metal and plastic parts, and non-audio products amounted to HK$25,305,000, representing 14% of the Group's turnover (2002: HK$43,991,000 and 24% respectively).

Over the last two years, banks which in the past had supported the Group's Electronics Business reduced their loan and operating credit facilities. Both the turnover and operation of the Electronics Business suffered as a result and the scale of operation shrank. In the Company's 2002 annual report, it was drawn to the attention of the shareholders that "the Board will, at appropriate time, assess whether the traditional electronics manufacturing is still in the best interest of the Group over the long term ..... and the need to unload the electronic manufacturing business to avoid the risk of further pro-longed drain of resources of the Group."

The directors considered that the Group's Electronics Business had not been profitable six years in a row principally because our strategy had been focused in providing products of stable quality and pricing. In the more matured business cycle of the Group's product family, devotion in research and upgrading of manufacturing methods/facilities has been limited due to risk/reward considerations. The turmoil in the Middle-East leading to a general uneasy sentiment both in North America and Europe in the past year further made sales orders difficult to solicit. Importers banking on such sentiment put further pressure on pricing making the dilemma ever dire for manufactures/suppliers. For some time, the directors have carefully considered whether the Electronics Business should be retained in view of the deteriorating prospects and the long-term drain on the resources of the Group.

As announced on 30 December 2003, after months' of search in the open market for an alternative to unload the money losing Electronics Business, the Company was still unable to locate any independent buyer interested in taking up the business. After careful consideration, the Board approved that the Electronics Business be disposed off to Mr. Leung Wah Chai and Madam Butt Wing Han, connected persons of the Company at a nominal value of HK$1. The consideration was arrived at after arm's length negotiation with reference to the operating conditions and the substantial net deficiency position of the Electronics Business as at 31 December 2003. As part of the agreement, the buyers also undertook to assume all the corporate guarantees and the related bank debts from the Group. As a result of the disposal, the Group recorded a disposal gain of HK$10,566,000. The disposal gain reflects that the negative net assets of the Electronics Business being sold for the nominal consideration. The disposal marked the end of the Group's indulgence in the core Electronics Business for over two decades.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

Pharmaceutical Business

In April 2002, the Group contracted to acquire an 87% interest in Korning and through Star Wisdom Investments Limited ("Star Wisdom"), indirectly held a 60% interest in the sino-foreign joint venture – Huayi. Huayi is in the business of manufacturing and distribution of Chinese medicines in China. Huayi, through its shareholdings of the Chinese Party to the joint venture, is also an associated company of China National Medicine, a state-owned enterprise which has contributed immensely in the Chinese medicine field over the past half a century.

On 24 July 2003, the Company advanced an additional HK$7,852,000 to Korning for fulfilling Korning's capital contribution obligation to Huayi. The additional advance represents the unfulfilled capital contribution commitment otherwise required of the 13% minority shareholder of Korning. Pursuant to the Shareholders' Agreement of Korning, the additional advance entitled the Group to subscribe for further share interest in Korning. The additional subscription, the details of which were published in the Company's announcement of 3 February 2004, increased the Company's shareholding in Korning from 87% to 94% with effect from 2 January 2004.

In 2003, sales of Chinese medicine under the Pharmaceutical Business was HK$20,954,000, representing 12% of the Group's turnover (2002: HK$24,250,000 and 13% respectively). The level of sales of the Pharmaceutical Business was below expectations and fell short of its original target. There were a few critical factors contributing to the poor performance. During the first half of 2003, the outbreak of SARS in China devastatingly affected sales and promotional efforts of Huayi as mobility of the sales team was severely restricted during the SARS period. Hospital sales and prescription medicines, which formed a major portion of the Group's medicine sales, were greatly affected.

In about June 2003, a major reorganization took place in the China's state-owned pharmaceutical enterprises. China National Medicine, previously reporting directly to the Large Enterprise Supervisory Committee of the State Council, effectively merged under China National Pharmaceutical Group Corporation ("Sino Pharm"), another state-owned enterprise and industry giant in China. The reorganisation came at a time when the Huayi partnership had just gone through the start-up's operating experience and weathered through the aftermath of the SARS devastation. Trust and cooperation of the partners had to be reestablished and consolidated. However, the reorganization immediately brought across-the-board changes to senior management in Huayi and China National Medicine. The change unfortunately broke the tie with the previous decision makers of the Chinese party and introduced new elements of uncertainty in the direction and effective management of Huayi. As the overall business strategy of Huayi must reconcile and integrate with those of Sino Pharm, plans for further cooperation and/or injection initiated by previously decision makers were being revisited. Execution of plans previously approved were halted, including an investment for the development of a Chinese medicinal centre and wild herbs harvesting area resulting in contingent losses not determinable at present. The details of which are summarised in notes 22 and 33 to the financial statements. Much energy was spent in re-examining the decisions of the past and the charting of a new mission that should be carried to reflect Sino Pharm's new leadership role. This management change, coupled with the plant relocation as discussed below, halted Huayi's more aggressive business expansion and promotional plans. This had a dramatic impact on the direction and operation of Huayi. During 2003, only four medicines were sold on a more sustained basis as the upgrading of the plant to increase plant capacity could not be carried out due to the reorganization and the impending relocation.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

Pharmaceutical Business (continued)

At present, the Huayi joint venture is also faced with the Good Manufacturing Practice ("GMP") plant certification problem. As a new regulation of the State, pharmaceutical manufacturers in China has until 30 June 2004 to apply to the governmental medical authority for GMP approval. The Group had been advised by its Chinese partner to the joint venture that the Huayi plant has to be relocated by the second half of 2004 due to the requirements of the new Beijing City development plan in the area at which the plant is located. As detailed in the Interim Report and announcement of the Company, as a result of the relocation, Huayi had to put its facility expansion scheme, which would support the more aggressive sales plan, on hold. The relevant government authority's plan to redevelop Beijing's Zhong Guan Cun, Haidian District, where the Huayi's factory is located, made any facility upgrade/expansion undesirable at this stage. The relocation came at a time which critically affected Huayi's GMP application which had to be temporarily delayed. The delay is necessitated by the fact that, through its landlord, Huayi needs to find out the extent of the compensation arising from the forced relocation under the new Beijing City development plan. Since such compensation will have a major impact on the decision for "build" or "lease" of a new Huayi plant. To maximize such compensation, the Chinese party to the joint venture is seriously negotiating with City officials and using all its means including, if necessary, delaying the relocation to the latest possible date. This uncertainty obviously affected the operation of Huayi and can only be removed when the GMP requirements shall first be fulfilled when decision on the new plant is made. In the interim, Huayi management has looked into alternative arrangements including building up a higher inventory to meet sales during the temporary plant shut down and subcontracting part of the medicine production to enterprises equipped with GMP status. At date of publication of this annual report, the decision on the new plant has not been made. The GMP issue, in isolation, would have been easy to decide as in the worst case, Huayi could simply use part of the compensation proceeds to lease a plant for temporary production purpose. The decision however is complicated by such matters as the build or lease consideration of the production plant, the choice of site, and the extent of new investment required and whether or not to complete the Chinese medicinal centre and wild herbs harvesting area as mentioned in the previous paragraph. These considerations cannot be determined at present due to the competing financial resources. The Board will keep the shareholders informed of development in this respect through public announcement in the future.

Other Business

The Group, in its early stage of planned business transformation, invested in 2000 and 2001 respectively in a Video-on-demand ("VOD") re-engineering project and an Internet phone project with the view to enhance growth and to complement the manufacturing business. Due mainly to drastic changes in the market place, inability to secure the necessary competitive edge due to fierce competition and operating difficulties arising from disputes in the case of the VOD project, prospects for these projects deteriorated substantially during 2002. As discussed in more detail in the previous annual report, the Group adopted the prudent and conservative approach in that year to fully provide for the losses in these projects. After careful review of these projects during the current year, management considered that further management devotion to these projects would not be beneficial to the interest of the Group. The directors therefore approved that these businesses be discontinued permanently.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY AND FINANCIAL RESOURCES

On 2 July 2003, the Company entered into a loan agreement and memorandum with an independent financial institution for obtainment of an unsecured facility of HK$50,000,000 with interest set at 2% per annum above prime lending rate payable at maturity. The facility was utilized primarily to satisfy the balance of contribution in respect of Korning's obligation to the Huayi's registered capital.

As at 31 December 2003, the Group's current assets amounted to HK$82,920,000, representing a decrease of approximately HK$60,147,000 as compared to the prior year. Accounts receivable decreased by HK$18,704,000 to HK$13,867,000, representing 8% of the turnover HK$177,949,000; cash and cash equivalents decreased by HK$28,678,000 to HK$2,980,000; pledged deposits decreased HK$4,636,000 to nil; inventories decreased by HK$21,247,000 to HK$10,159,000; prepayments and other receivables decreased by HK$12,346,000 to HK$7,035,000; short term investment decreased by HK$23,415,000 to nil; and deposit for investment increased HK$48,879,000 to HK$48,879,000. Save for the planned capital commitment of HK$19,009,000 for an investment project in PRC by Huayi and any possible capital commitment due to the plant relocation and setup which cannot be quantified at present, the Group did not have any capital commitment as at 31 December 2003.

Current liabilities amounted to HK$46,962,000, representing a decrease of HK$38,660,000 as compared to the end of prior year. Accounts payable decreased by HK$34,425,000 to HK$2,386,000; other payables and accruals decreased by HK$2,833,000 to HK$23,074,000; interest-bearing bank loans and other borrowings increased by HK$7,991,000 to HK$20,606,000; amount due to related companies and a director decreased by HK$6,389,000 to HK$896,000. Net current assets amounted to HK$35,958,000 representing a decrease of HK$21,487,000 as compared to the end of prior year. Most liabilities were short term in nature and were mainly in Hong Kong dollars or Renminbi. Loan from financial institution was Hong Kong dollar prime rate based. As at 31 December 2003, due to the disposal of the Electronics Business and payment for capital injection to a subsidiary, the current assets and current liabilities of the Group had decreased. The current ratio (the ratio of current assets to current liabilities) was approximately 1.8. To improve the financial liquidity of the Group, the Company has announced on 30 March 2004 regarding the proposed issue of Convertible Notes for a maximum amount of approximately HK$25,000,000.

Non-current assets, amounting to HK$132,625,000, represented a decrease of HK$43,445,000 as compared to the end of prior year. Fixed assets decreased by HK$42,995,000 to HK$10,831,000; intangible assets increased by HK$10,832,000; investment decreased by HK$1,000,000 to nil; and goodwill decreased by HK$10,282,000 to HK$88,257,000. The Group's non-current liabilities were HK$1,991,000, resulting in the overall gearing ratio (the ratio of total liabilities to shareholders' equity) to be approximately 39%.

In respect of contingent liabilities, as at 31 December 2003, bills discounted with recourse decreased to nil as compared with prior year. All the guarantees given to bank by the Company for facilities granted to subsidiaries were fully cancelled as at 31 December 2003.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

CAPITAL STRUCTURE

At the annual general meeting of 30 May 2003 and pursuant to the special resolutions, the shareholders of the Company approved the capital reorganization of reducing the nominal value of the shares in issue from HK$0.50 each to HK$0.01 each. After such capital reduction, the authorized share capital of the Company is HK$500,000,000 divided into 50,000,000,000 shares of HK$0.01 each. The issued share capital was reduced to HK$5,717,000 and the capital reduction amount of HK$280,108,000 has been applied to set off against accumulated losses. The implementation of the capital reorganization shall facilitate the Company in a capital fundraising exercise such as the convertible note announced subsequent to the year end on 30 March 2004. The capital reduction would also enable the Company, when conditions warrant in the future, to make distribution for payment of dividends from retained earnings account for the best interest of the Company and its shareholders as a whole.

As at 31 December 2003, the Company's issued shares numbered 571,650,673 and the shareholders' equity amounted to approximately HK$125,787,000.

PLEDGE OF ASSETS AND CORPORATE GUARANTEES

As a result of the restructuring and the disposal of the Electronics Business, the Group streamlined its business focus and at the same time also clearout its financial commitments previously given. The Group took the opportunity to resolve with the creditor banks to have eliminated all the assets pledged and corporate guarantees given to the banks associated with the Electronics Business. As at 31 December 2003, the Group has no assets pledged (2002: HK$19,793,000) and all corporate guarantee commitments previously undertaken by the Group have been cancelled (2002: HK$34,000,000 of which a sum of HK$15,027,000 was utilized).

PROSPECTS

Year 2003 was a year of transformation for both the local economy and for the Group. At the beginning of the year, recession continued to take its toll on the gloomy local economy. Investment, capital spending and financial activities by major players were at a low level, not inducive to business expansion. However, after the Hong Kong economy came out of the SARS epidemic by mid year, and the effects of policy support from the central PRC government regarding CEPA and the relaxation of the PRC individual travel policy to Hong Kong started to have a significant impact on the economy, the second half of 2003 turned positive. The positive sentiment transpired into a better business environment in which businesses could prosper.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

The Group has indicated that it is keenly interested in participating in the enormous China market through diversification, investments and cooperation. With improved sentiment and further central PRC government policy encouraging Chinese enterprises in all industries to evolve, reorganise and to seek foreign capital for achieving sustained competitiveness and growth, and in improving local employment, the Group considered that its restructuring efforts would be well tuned to benefit from such opportunities and to benefit from an upward business cycle. The Group believes its relatively debt free position and its streamlined structure could readily become a platform for business development and alliances in the PRC market for achieving a more diversified investment portfolio through acquisitions, investments and strategic alliances, in accord with the significant evolution and development opportunities in China. This is particular relevant after China's accession to WTO; enterprises are unleashed to modernise, expand and compete and the Group could cooperate with them for mutual value creation. The Group's platform would leverage on the strength of Hong Kong's international financial center status for capital fund raising to support such acquisitions or investments and to satisfy the business development needs of PRC enterprises. In recent months, the Group has had a number of opportunities exploring with PRC enterprises, whether in the pharmaceutical field or otherwise, who aspire to accelerated corporate change and significant business development and are interested in discussing business cooperation. Given more concrete discussions by both sides, it is conceivable that meaningful partnering relationship could be built for mutual well being.

The Group believes the prospect for teaming up with PRC enterprises taking advantage of the change phenomenon could transform the Group into a much larger and more competitive player. The strategy of the Group therefore is to keep an open mind on new opportunities and focus on growth oriented industries with substantial performance results. The Group will continue with its diversification strategy in those business areas or markets that are considered to have high potentials as a means for seeking exceptional growth.

EMPLOYEES

As at 31 December 2003, the Group has approximately 230 management, administrative, production and selling staff located in Hong Kong and the PRC. The significant reduction in staff complement reflects the disposal of the Electronics Business prior to the year end.

The Company has adopted an employee share option scheme and housing benefits were provided for certain senior management staff and directors. Salaries of employees were determined taking into account job performance and professional experience of the employees concerned and the general practice within the industry. Since December 2000, all employees and directors in Hong Kong have joined the mandatory provident fund scheme implemented by the Hong Kong government.

APPRECIATION

The Directors wish to express their sincere gratitude to all the parties concerned for their support and in particular to all the staff of the Group for their dedication to the various initiatives during the year. The Board also wishes to thank the Executive Directors Madam Butt Wing Han, Mr. Leung Wah Chai, and Mr. Cheng Kwok Choi, Godwin who resigned since the last year end for all of their leadership and past contribution to the Group.

ON BEHALF OF THE BOARD

Wu Fred Fong
Director

Hong Kong
22 April 2004