

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 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries have consisted of (i) the manufacture and trading of compact disc ("CD") players, video CD ("VCD") players, CD and VCD player mechanisms, amplifiers, mini-audio products, car audio mechanisms, cassette deck mechanisms and related component products, and non-audio products including personal office appliances (the "Electronics Business") and (ii) the manufacturing, trading and contracting of Chinese medicines products in the People's Republic of China (the "PRC"). On 31 December 2003, the Group ceased operations of the Internet Phone Business and Electronics Business, and disposed of its 100% equity interest in Yanion BVI Limited and its subsidiaries. Details of the cessation and disposal are set out in note 11 to the financial statements. 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 17 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 2003 is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's net loss attributable to shareholders for the year ended 31 December 2003 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 25 and page 29.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2003.

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 70. This summary is for information only and 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 14 to the financial statements.

REPORT OF THE DIRECTORS (continued)

SHARE CAPITAL AND SHARE OPTIONS

Pursuant to special resolutions passed on 30 May 2003 in respect of a capital reorganisation, the nominal value of the shares of the Company in issue was reduced from HK\$0.50 each to HK\$0.01 each. After the implementation of the capital reduction, the authorised share capital of the Company is HK\$500,000,000 divided into 50,000,000,000 new shares of HK\$0.01 each. Upon completion of the capital reduction, the issued share capital of HK\$285,825,000 was reduced to HK\$5,717,000 and the credit of HK\$280,108,000 arising therefrom has been applied to set off against an equivalent amount in the accumulated losses. Share premium of HK\$232,515,000 was reduced by applying the credit to set off against the accumulated losses. Details of movements in the Company's share capital and share options during the year, together with explanations thereof, are set out in note 30 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

Upon the passing of a special resolution on 30 May 2003 as part of the capital reorganisation, share premium of HK\$232,515,000 was reduced by applying the credit to set off against the accumulated losses. Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and page 26 respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserves available for distribution in specie were HK\$71,772,000 (2002: Nil). The Company's share premium account in the amount of HK\$82,700,000 (2002: HK\$315,215,000) 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 | 7% |
| | • the five largest suppliers | 22% |
| (b) | Percentage of sales attributable to: | |
| | • the largest customer | 30% |
| | • the five largest customers | 70% |

REPORT OF THE DIRECTORS (continued)

MAJOR SUPPLIERS AND CUSTOMERS (continued)

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

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

Honorary chairman:

Zuo Tai Hang (due to retire at conclusion of tenure on 30 April 2004)

Honorary director:

Xia Zhi Wu

DIRECTORS

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

Executive directors:

Butt Wing Han (resigned on 31 December 2003)

Cheng Kwok Choi, Godwin (resigned on 20 January 2004)

Cheng Shu Wing

Guo Duen How, Tom

Kao Ying Lun

Leung Wah Chai (resigned on 31 December 2003)

Wu Fred Fong

Independent non-executive directors:

Choy Tak Ho

Tsui Chun Chung, Arthur

In accordance with the Company's bye-laws, Messrs Kao Ying Lun 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.

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 56, 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. Mr. Zuo has indicated he will retire from the Honorary Chairmanship at conclusion of the tenure on 30 April 2004.

Honorary director

XIA Zhi Wu, aged 77, 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 63, was the general manager and one of the founders of the Group, and resigned in December 2003. She was 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 47, joined the Group in 1994, was the deputy general manager of the Group, and resigned in January 2004. 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 had supervised the overall financial management of the Group and also participated in corporate strategic planning.

CHENG Shu Wing, aged 55, 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 was 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.

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 59, 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 directorship of an investment bank in Hong Kong. Mr. Guo holds a Bachelor Degree of Commerce from Concordia University of Canada.

KAO Ying Lun, aged 51, joined the Group in 2000 and has over 20 years' business and professional experience of which about 15 years were gained in investment banking, corporate finance and financial advisory fields. He sits on the board of a number of private investment/listed companies. Mr. Kao 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 66, was one of the founders of the Group and resigned in December 2003. He was 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 57, joined the Group in 2000 and has over 20 years' broad experience in corporate planning, corporate finance, direct investment and consulting with public companies in Canada and Hong Kong. He held directorship of an investment bank in Hong Kong. Mr. Wu 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 76, joined the Group in 2002 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 49, joined the Group in 2002 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; an associate member of Hong Kong Society of Accountants; 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 vice president and corporate controller 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 47, joined the Group in 2002 and is the Chief Officer, China Business Development of the Group and the Director and Chief Financial Office of a subsidiary, 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 being 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 47, 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 40, 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 40, 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 39, joined the Group in 1994 and is the company secretary and finance manager of the Group. She holds a Master of Business Administrative Degree from 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.

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.

REPORT OF THE DIRECTORS (continued)

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2003, the directors and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

Personal interest

Name of director	Number of ordinary shares in the Company
Cheng Shu Wing	100,000
Guo Duen How, Tom	2,800,000
Kao Ying Lun	5,000,000
Wu Fred Fong	5,000,000
	12,900,000

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

Save as disclosed above, as at 31 December 2003, none of the directors or the chief executive of the Company and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies.

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 is information about share options under the New Scheme during the year:

Name of director	Outstanding as at 1 January 2003	Number of share options			Outstanding as at 31 December 2003
		Grant during the year	Exercised during the year	Lapsed during the year	
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 30 to the financial statements.

As at the balance sheet date, all the share options granted have lapsed.

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 36 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

As at 31 December 2003, save as disclosed below and other than the directors and chief executive of the Company and the companies controlled by them whose interests are disclosed above, the Company did not aware of any shareholder had any interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Long position in the shares of the Company

Name of shareholder	Number of issued shares held	% of the issued share capital
Leung Wah Chai and his associates (note 1)	52,614,350	9.20%
Noble Dynasty Limited (note 2)	50,590,000	8.85%
Grimwood Enterprises Limited	47,450,000	8.30%

Notes:—

- Interests of Mr. Leung Wah Chai and his associates comprise of Mr. Leung's personal interest of 33,915,600 shares, his spouse' personal interest of 8,915,250 shares, and his controlling interest in Kamga Investment Limited and Bestbond Company Limited which hold 2,983,500 share and 6,800,000 shares respectively in the Company.
- The beneficiary owner of Noble Dynasty Limited is Mr. Chen Ven Chien.

REPORT OF THE DIRECTORS (continued)

CONNECTED TRANSACTIONS

During the year, the Group had certain connected transactions, further details of which are included in note 37 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 8 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 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

The financial statements have been audited by Horwath Hong Kong CPA Limited, who retire and being eligible, offer themselves for re-appointment. 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

Wu Fred Fong

Director

Hong Kong
22 April 2004