

Message from Chairman

BUSINESS OVERVIEW

Restructuring of the Group

As a result of the Group's financial position, Provisional Liquidators were appointed on 21 June 2003. Details of the Group's financial situation refer to note 2 to the accounts. An investor has expressed his interest to invest in the Company and has submitted a restructuring proposal to the Provisional Liquidators for the restructuring of the Company, details of which are set out in the note 3 (i) to the accounts and the announcement of the Company dated 10 June 2004.

Failure to Access the Books and Records of Certain Subsidiaries

Due to (a) the liquidation of certain subsidiaries or their immediate holding companies; and (b) the seizure of the major assets and production facilities of the subsidiaries under the court orders as security for the unsettled claims, the Directors have not been able to obtain access to the books and records of these subsidiaries and considered that control has been lost.

Business Review & Prospects

During the period under review, the Group registered a loss of HK\$897 million, compared to a loss of HK\$959 million in the previous year. The Group has been experiencing a very difficult financial situation subsequent to 31 March 2002, the Group defaulted on the scheduled repayment of certain bank loans and received notices of various lawsuits against the Group. Due to shortage of fund to maintain the operation, since November 2002, the Group's major production facilities at the Huizhou Industrial Estate, the PRC, including the factory premises, machines and equipment, have been leased to TCL King Electrical Appliance (Huizhou) Co. Ltd., an independent third party. However, the rental income and the production facilities have subsequently been seized pursuant to PRC court orders for repayment of bank loans. The Group's business activities have been significantly reduced since then.

At present, the Group has still maintained its principal activities of manufacture and sales of consumer electronic products which mainly include conventional television, home theatre and DVD. To improve the profit margin, the Group has been engaged in research and development of TFT-LCD TV. Sales of TFT-LCD TV has started in the first half of 2004. Since the Group's main production facilities in Huizhou have been leased and frozen as mentioned above, the Group at present is mainly engaged in providing customers with our product design, specification and solution in the manufacturing process while the production is subcontracted to subcontractors.

Liquidity, Financial Resources & Funding

Given that the Group has been under provisional liquidation, all banking facilities have been frozen. Financial assistance from the investor and cash inflow from operation are, at present, the major sources of funding for the Group. It is expected that the creditors' indebtedness due by the Company will be released and discharged in its entirety if the restructuring for the Group can be successfully completed so that the Group will have sufficient working capital to restore its normal operations.

Contingent Liabilities & Employees

Due to the failure to obtain access to the books and records of certain subsidiaries as explained above, no detailed analysis on contingent liabilities and employees' training & remuneration policy are made for the period ended 31 December 2002.

REVIEW BY THE AUDIT COMMITTEE

Due to the severe financial difficulties of the Group and the prolonged suspension in trading of the shares of the Company on the Stock Exchange, up to the date of this report the Company is unable to appoint an additional Independent Non-Executive Director as required by Rule 3.10 of the Listing Rules. However, the audited accounts of the Group for the period from 1 April 2002 to 31 December 2002 have been reviewed by the Audit Committee of the Company which comprises the two Independent Non-Executive Directors namely Messrs. Lee Shue Shing and Mr. Wu Xiaoke.

By order of the Board

Wu Shaozhang

Chairman

Hong Kong, 29 October 2004