

Report of the Directors

The Directors present their report and the audited accounts of the Company and the Group for the period from 1 April 2002 to 31 December 2002. The Company has changed its financial year end from 31 March to 31 December with effect from 29 November 2002.

DELAY IN PUBLICATION OF ANNUAL RESULTS AND DISPATCH OF ANNUAL REPORT FOR THE PERIOD ENDED 31 DECEMBER 2002

Due to various litigations against the Group and prolonged suspension of shares trading in the Stock Exchange, most of the responsible officers had left the Group. The Company has not been able to announce its audited results for the period ended 31 December 2002 and dispatch the Annual Reports within the due date as required by the Rules Governing the Listing of Securities (the “Listing Rules”).

The delay in publication of the Annual Results and the dispatch of the Annual Report constitute breaches of the Rules 13.46(2) and 13.49(1) of the Listing Rules by the Company.

PRINCIPAL ACTIVITIES

The Group’s principal activities remained as the manufacture and sales of consumer electronic products during the period. The principal activities of the subsidiaries are set out in note 15 to the accounts. The principal activity of the Company is investment holding.

The Group has been experiencing financial difficulties 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, the Group’s business activities have been significantly reduced.

WINDING-UP PETITION AND RESTRUCTURING OF THE GROUP

The Bank of East Asia Limited (“BEA”), a subsidiary’s creditor, petitioned for the winding-up of the Company on 25 March 2003 and 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.

NON-COMPLIANCE OF APPENDIX 16 “DISCLOSURE OF FINANCIAL INFORMATION” OF THE LISTING RULES

Due to the failure to obtain access to the books and records of certain subsidiaries and the resignation of the major management personnel during the shares suspension period, the Directors do not have sufficient data available to compile the Annual Report so as to comply with the Appendix 16 “Disclosure of financial information” of the Listing Rules. The following information has been omitted from the Annual Report:

1. Cash flow statement
2. Segment information for the Group’s turnover and contribution to results by principal activities and geographical areas of operations
3. The information on the Group’s major suppliers and customers

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4. Connected transactions and continuing connected transactions with the connected persons as defined in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules
5. A separate Corporate Governance Report contained the information required under Appendix 23 of the Listing Rules
6. Credit policy of the debtors and ageing analysis of accounts receivable and accounts payable

RESULTS AND DIVIDENDS

The Group's loss for the period ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 15 to 50.

The Board of Directors of the Company has not recommended the payment of any dividend for the period ended 31 December 2002.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited accounts, is set out on page 52. This summary does not form part of the audited accounts.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the period are set out in note 13 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the period, together with the reasons thereof, are set out in note 28 to the accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights either 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, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries has purchased, sold, or redeemed any of the Company's securities.

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 29 to the accounts.

DIRECTORS

The Directors of the Company during the period and up to the date of this report were:

Executive Directors

Mr. Wu Shaozhang
Mr. Wong Kwok Wing
Mr. Tse On Kin
Mr. Chen Weixiong
Mr. Yuen Chung Yan, John

Independent Non-Executive Directors

Mr. Lee Shue Shing
Mr. Wu Xiaoke

In accordance with article 99(A) of the Company's bye-laws, Messrs. Chen Weixiong and Yuen Chung Yan, John will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

The Independent Non-Executive Directors are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Company's bye-laws.

The Company has received from each of its Independent Non-Executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-Executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors of the Company are set out on page 4 of the Annual Report.

EMOLUMENTS OF DIRECTORS

Details of the emoluments of the Directors and of the five highest paid individuals in the Group are set out in notes 8 to the accounts.

DIRECTORS' SERVICE CONTRACTS

Messrs. Wu Shaozhang, Wong Kwok Wing and Chen Weixiong have service contracts with the Company which had expired on 31 October 2002.

Apart from the foregoing, 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 of compensation, other than statutory compensation.

Pursuant to share option schemes adopted on 20 March 1991 and 30 January 1997 (the "Old Scheme"), the Company may grant options to Executive Directors and employees of the Group to subscribe for shares in the Company. The share subscription price of any options granted under the old Schemes is the higher of 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date on which an option is granted, and the nominal value of the Company's shares. The maximum number of shares for which options may be granted may not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which have been issued under the old Scheme.

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On 15 April 2002, the Company terminated the Old Schemes and adopted a new share option scheme (the “New Scheme”). The New Scheme shall be valid and effective for a period of 10 years from 15 April 2002, after which period no further share will be granted but the provisions of the New Scheme shall remain in full force and effect in all other respects.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company’s shares on the date of the offer of the share options which must be a business day; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company’s shares.

As at 31 March 2002, the Company had 14,800,000 options outstanding which entitled the holder to subscribe for shares of the Company from 7 March 2000 to 6 March 2003. The exercise in full of the remaining outstanding share options would, under the present capital structure of the Company, result in the issue of 14,800,000 additional shares at an adjusted exercise price of HK\$0.18 each. No share option has been granted or exercised during the period.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests that is required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”):

| Name | Number of shares | Percentage |
|--|------------------|------------|
| Vandor Profits Limited (<i>Note</i>) | 2,430,660,545 | 30.1% |

Note: Vandor Profits Limited (“Vandor”) is beneficially owned by Mr. Wu Shaozhang.

Save as disclosed above, no person other than the Directors of the Company, whose interests are set out in the Section “Directors’ interests in shares” below, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

DIRECTORS’ INTERESTS IN SHARES

At 31 December 2002, the interests of the Directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

| Director | Nature of interest | Number of Shares held |
|----------------------------------|--------------------|-----------------------|
| Mr. Wu Shaozhang (<i>Note</i>) | Corporate interest | 2,430,660,545 |

Note: These shares are held by Vandor (see the section “Substantial shareholders” above). Under the SDI Ordinance, a Director is taken to be interested in shares if a corporation is interested in the shares and the Director is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of that corporation.

Saved as disclosed above and other than certain nominee shareholdings in subsidiaries held in trust for the Group by certain Directors, none of the Directors or their associates held 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

At no time during the period were rights to acquire benefits by means of the acquisition of shares in 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 or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

No Director had a material beneficial interest in any contract of significance to which the Company or any of its subsidiaries was a party during the period.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period and up to the date of this report, the Directors considered that they have no interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Listing Rules, throughout the period, except that the Non-Executive Directors of the Company are not appointed for specific terms as required by paragraph A.4.1 of the Code, but are subject to retirement by rotation in accordance with Company's bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Trading in the Shares of the Company has been suspended since 24 March 2003 and the Directors are of the opinion that since the date of shares trading suspension, the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules is not applicable.

SUFFICIENCY OF PUBLIC FLOAT

Up to the date of this Annual report, the trading in the shares of the Company remains in suspension, the sufficiency of public float as required by the Listing Rules is not applicable.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 33 to the accounts.

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AUDIT COMMITTEE

The Company has an audit committee comprising the two Independent Non-Executive Directors of the Company which was established for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. 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 a suitable person to be its third Independent Non-Executive Director and additional Audit Committee member. Therefore, the number of its Independent Non-Executive Directors and Audit Committee members fell below the minimum number required under Rule 3.10 (1) (the "INED Requirement") and Rule 3.21 (the "Audit Committee Requirement") of the Listing Rules.

AUDITORS

S.W. Wu & Co. CPA Limited was appointed as the Auditors of the Company on 20 December 2002 to fill the vacancy left by the resignation of Ernst & Young.

Due to severe financial difficulties of the Company, the Company was not able to settle the outstanding balances of the audit fee owed to S.W. Wu & Co. CPA Limited in respect of company audit for the period ended 31 December 2002 and the Auditors stopped the audit works on/about 25 June 2003. Ting Ho Kwan & Chan were appointed as the Auditors of the Company with effect from 17 August 2004 to fill the casual vacancy left by the resignation of S.W. Wu & Co. CPA Limited.

Ting Ho Kwan & Chan retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD OF DIRECTORS

Wu Shaozhang

Chairman

Hong Kong

29 October 2004