

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 announcement of the Company dated 10 June 2004. The said restructuring proposal have been revised and submitted to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 December 2004. After several submissions (written and oral) by relevant parties subsequent to the date, the Listing (Review) Committee of the Stock Exchange conditionally allowed the Company to proceed with the proposal on 12 September 2005. The Company is now proceeding with the resumption proposal and its progress and the related group restructuring and scheme of arrangements would be announced shortly.

Failure to Obtain Access to 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 year, the Group registered a profit of HK\$200 million, compared to a loss of HK\$36 million in the previous year. The profit is mainly attributable to a gain of approximately HK\$205 million on deconsolidation of a subsidiary, Great Wall France SA, an overseas subsidiary operating in France, which has been put into liquidation during the year ended 31 December 2004, together with its immediate holding companies. The Group's turnover of both 2002 and 2003 were solely derived from Great Wall France SA. Without the financial support from the Group since the Group was in severe financial difficulties in 2002, the business capacity of Great Wall France SA was substantially scaled down and was eventually went into liquidation in 2004.

Besides, 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.

In June 2004, a new investor agreed to advance funds on an interim basis and seconded management to the Group so that turnover revived to a total of HK\$120 million for the year ended 31 December 2004, double the 2003 level at HK\$59 million. Most of this improvement came from September 2004 onwards. The operating profit for the year excluding the gain on deconsolidation of subsidiaries and provision against amounts due from subsidiaries not consolidated became a loss of HK\$5 million, compared to an operating loss excluding the same items of HK\$29 million in 2003, was a significant improvement in results.

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. The product range of the Group includes DVDs, home theatre system, TFT-LCD TVs, portable DVD player, classic turntable, speaker and TV-DVD combo.

Message from Chairman

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 analyses on contingent liabilities and employees' training & remuneration policy are made for the year ended 31 December 2004.

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 year ended 31 December 2004 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, 10 November 2005