

Message from Chairman

BUSINESS OVERVIEW

Financial Situation and Restructuring of the Group

As a result of the Group's financial position, Provisional Liquidators were appointed on 21 June 2003. 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 circular of the Company dated 10 June 2004. On 26 September 2005, the Review Committee of the Stock Exchange has granted conditional approval for the Restructuring Proposal subject to the fulfillment of certain conditions. Details of which refer to the announcement of the Company dated 2 December 2005.

The Company, the Provisional Liquidators and the Investor entered into the Restructuring Agreement on 13 April 2006 for the implementation of the Restructuring Proposal which involves, among other things, the Capital Reorganisation, the Subscription, the Creditors' Schemes, the Open Offer, the Placing and the Group Reorganisation. Completion of the Restructuring Proposal is subject to fulfillment of certain conditions including the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. Details of the conditions precedent of the Restructuring Proposal are set out in the announcement of the Company dated 21 April 2006. The hearing of the petition for winding up of the Company has been further adjourned to 29 May 2006.

The Company is now working towards the implementation of the Restructuring Proposal and further announcements regarding the progress of the Restructuring of the Company will be made when appropriate.

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 to have been lost.

Business Review and Prospects

The Group suffered severe financial difficulties in 2002 and 2003 and lost control of a number of principal subsidiaries. For the nine months ended 31 December 2002 and the year ended 31 December 2003, the Group recorded audited losses attributable to Shareholders of approximately HK\$896.9 million and HK\$35.7 million respectively. The substantial losses attributable to the Shareholders in 2002 was mainly due to (i) provision of approximately HK\$578.7 million due from subsidiaries over which the Company has lost control and therefore whose accounts were not consolidated into that of the Company; and (ii) losses of approximately HK\$291.1 million resulting from the Company indemnifying certain banks and suppliers of its subsidiaries. Based on the audited financial statements for the year ended 31 December 2003, the Group recorded audited net liabilities of approximately HK\$497.6 million as at 31 December 2003.

Since the entering into of the Cost Escrow Agreement in June 2004, the Investor has made available working capital to the Group for its business reactivation. In addition, the Investor has helped to rebuild the sales team of the Group with experienced professionals who have good business networks in the customer electronic products industry. The Group has been able to accelerate reactivation of its business in the sale of consumer electronic products including DVD players, home theatre systems and television sets from June 2004 onwards by subcontracting production to independent third parties. Since then, significant progress has been made towards restoring the Group to an active and healthy state. The Group has successfully generated positive operating income and cashflow in the second half of 2004 as a result of a significant increase in sales. Turnover for the six-month period ended 31 December, 2004 increased by 3.8 times to HK\$109 million while net loss (after discounting one-off items) reduced by approximately 76% to HK\$2 million when compared with the same period in 2003. The financial results for the year ended 31 December 2004 reflect the results of the Group under the new business model which took place since June 2004.

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The Group continued to perform satisfactorily under the new business model in 2005. During the year, the Group achieved a turnover of HK\$514 million and a net profit of HK\$8 million, compared to turnover of HK\$120 million and a net loss (after discounting one-off items) of HK\$5 million respectively for the year of 2004. For the six-month period ended 30 June 2005; the Group made a turnover of HK\$174 million and achieved a net profit of HK\$3 million. Such results evidenced significant improvement when compared with a turnover of HK\$10 million and a net loss (after discounting one-off items) of HK\$2 million for the six-month period ended 30 June, 2004, and it was the first time the Group returned to a profitable position (after discounting one-off items) for an interim period since the financial difficulties experienced by the Group in 2002. Turnover for the six-month period ended 31 December 2005 increased by 2.1 times to HK\$339 million and climbed up to a net profit of HK\$5 million from a net loss of HK\$2.5 million when compared with the same period in 2004.

Due to financial constraints, instead of manufacturing and selling consumer electronic products as in the past, the Group's current business model is to concentrate on product design, marketing and customers relationships. All production work is now subcontracted to independent third parties.

The Directors continue to seek new business opportunities to improve the Group's profitability and prospects, particularly in the fast growing commodity sector which including oil-related and non-ferrous metal business. During the year the Group entered into an advisory contract for an oil refinery and mixing plant in PRC and generated an income of HK\$42K.

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 access 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 year ended 31 December 2005.

By order of the Board
Wu Shaozhang
Chairman

Hong Kong, 28 April, 2006