

CHAIRMAN'S STATEMENT

1. REVIEW

In early year 2000, the Group formed its existing new management, continued its strategies and rationalized its business structure, laying down a solid operation foundation. The Group has established a market-oriented policy powered by technology and with an emphasis on people. In line with this policy and in order to create satisfactory return for shareholders, the Group restructured its business, which is now led by its manufacturing arm with auxiliary businesses in green energy and information technology. During the year, the Group developed its business in accordance with the following principles:

- (1) Aggressive branding activities for its electronic products — Construction of our production base in Shunde, the PRC has been completed and the Group established Shunde Sound Electronic Co. Ltd., which will be responsible for the overall planning, design, manufacture and sales of the Group's electronic products in the mainland China. In order to enhance its cost effectiveness and operation efficiency by expanding product line and scale of operation, the Group licensed the use of the popular "Huabao" brand from its substantial shareholder in October 2000 for the manufacture and sales of products such as stereos and electric water heater. Fully capturing the substantial experience, extensive sales network and solid customer base with over 2,000 distributors of the existing new management, which have been built up through years of operation in the domestic Chinese market, the operation base has achieved a certain scale. Several Huabao products have been launched to the market. Sales for the year have shown tremendous increase, forming a strong basis for the development of the Group's electronic product business.
- (2) Investment in green energy business — The increasing social awareness towards environmental protection has brought investment opportunities to the Group. Grasping such opportunities, the Group invested in a green energy project, which is planned to develop into one of its core arms of business in the future. In line with this, the Group has made an important move by entering into the business of green energy by acquiring 70% equity interests in Well Jade Limited ("Well Jade") in November 2000, which is principally engaged in the operation of vehicle-use liquefied petroleum gas ("LPG") fueling stations and retail and wholesale of domestic-use LPG in Daqing city, the PRC. Currently, there are a total of five LPG fueling stations in service, which is expected to expand to 19

within this year. On the other hand, the construction of intermediate gasholders, which are being built to facilitate the LPG retail and wholesale business, is progressing on schedule. The gasholders are expected to commence operation in the first quarter this year. At present, the Group is aggressively identifying similar investment opportunities in order to develop the green energy operation into one of its core businesses in the near future.

- (3) Investment in information technology and network business — At the end of March 2000, the Group acquired 40% equity interests in Clear Network Limited, which operates a website at ClearHit.com. Originally scheduled to be launched around July last year, the website was expected to be utilized as a channel for the establishment of an e-commerce platform providing effective promotion of the Group's products in the global market. However, rapid market changes has induced uncertainties in the industry. The board of director, for the sake of prudence, has decided to postpone the launch time of the website, and to put its operation model under further review. The website will be launched when appropriate, so as to provide profit contribution to the Group. The Group believes that, in terms of development, the difficulties currently faced by the information technology industry are only temporary, and the industry will soon experience another growth crest. The directors are, therefore, optimistic to the long-term prospect of the industry.
- (4) Company reorganization — The reorganization proposal jointly announced in April 1999 by the Company and Kosonic International Holdings Limited ("Kosonic") was completed on July 28, 1999. The last tranche of certificates for approximately 25.9 million shares involved in the reorganisation proposal has been issued and sent to the relevant scheme creditors and investors on July 10, 2000.

After the completion of reorganization proposal, Kosonic has no further business activity. In order to better reflect the post-reorganization structure of the Group, the board of directors decided to commence the voluntary winding-up process for certain subsidiaries of Kosonic. The process is now in progress and is expected to complete soon. As Kosonic and its subsidiaries do not bear any asset or activity at present, the winding-up will not have any adverse effect on the operation and financial position of the Group.

2. RESULTS

The electronic product business of the Group has achieved substantial improvement in areas of design, manufacture and sales in the financial year ended September 30, 2000. Turnover amounted to HK\$36,722,000, being a 8.3 times as compared to HK\$4,410,000 of the previous year. This significant achievement has been regarded as a new starting point for the future development of the Group.

The negative impacts resulting from years of suspension of operation of Kosonic has gradually taken effects in the year, necessitating further restructuring and consolidation during the reorganization process of the Group, thus limiting its business development for the time being. However, the board of directors considers that the above impacts have been substantially mitigated. Nevertheless, the Group has borne the inevitable costs of adjustment. During the restructuring of the manufacture and sales business of electronic products, some assets were found to be obsolete due to changes of market and technological conditions. Certain assets were improved during the reorganization so as to optimize the asset profile of the Group. In particular, appropriate provision for diminution in value of the Group's website investment has been made to reflect the market downturn, resulting in a consolidated loss of HK\$74,465,000 for the year.

3. OUTLOOK

Through appropriate consolidation, research and development, the core business of the Group, being the design, manufacture and sales of electronic products, has gained further control over its operation costs with enlarged scale of production and sales. With the promotional effects on trade and investment brought by the imminent PRC access to World Trade Organisation in 2001, plus the economy upturn of Europe and Hong Kong, solid growth with substantial contribution to the Group is expected for this core arm of business.

On the other hand, the Group also devotes significant efforts to explore the rapidly developing and emerging industry of green energy, which is expected to grow as one of the Group's core businesses. Currently, this operation is still in the early stage of development. However, with continuous investment by the Group and gradual completion of construction of gas stations and gasholders, we are confident that the green energy business, with its tremendous room for expansion, will provide long-term and steady contribution for the Group.

As for website development, despite the currently weak global investment in information technology, we believe that the integration of information industry with traditional industries is the future trend. In view of this, the Group will continue to review its investment strategy and identify development opportunities in the information industry in response to market developments.

4. FINANCIAL PROSPECT

During the year, two placements of shares were made by the Company to cater for the Group's development plan. Share capital of the Company increased from approximately \$160 million at the beginning of the year to approximately \$231 million at September 30, 2000. Currently, the Group does not have any borrowings. We will maximize the use of capital at hand while closely monitor the changes and opportunities in the capital market in Hong Kong, so as to raise sufficient funds for the development needs of the Group.

Shum Siu Hung

Chairman

Hong Kong, January 18, 2001