

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and the provision of corporate management services. The principal activities of the Group include the development, manufacture, and marketing of information and entertainment products for home and automobile. During the year, the Group commenced the development of networking technology and sales of integrated solutions and services for the cable TV industry.

During the year, the Group disposed of its 51% equity interest in Orient Power Telecommunication Limited (“OPTL”). The principal activities of OPTL and its subsidiaries included the development, manufacture and sale of telecommunication products.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical market for the year ended 31 December 2000 is as follows:

	Turnover		Contribution to profit from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By activity:				
Continuing operations				
Development, manufacture, sale and distribution of:				
– audio products	1,422,178	1,238,194	27,210	39,031
– in-car electronics products	1,458,062	1,262,850	39,916	29,758
– video products	946,963	219,309	42,787	18,750
– network information/entertainment solution	15,730	–	(1,261)	–
Discontinued operations				
Development, manufacture and sale of telecommunication products	55,880	385,016	(281)	16,839
	<u>3,898,813</u>	<u>3,105,369</u>	<u>108,371</u>	<u>104,378</u>
By geographical market:				
The United States of America (“USA”)	2,137,836	1,803,338	54,190	56,264
Europe	1,016,092	843,261	31,910	31,765
Asia	246,178	279,033	6,115	10,324
Central and South America	216,462	59,751	6,814	1,936
Canada	110,615	61,935	3,324	2,168
Others	171,630	58,051	6,018	1,921
	<u>3,898,813</u>	<u>3,105,369</u>	<u>108,371</u>	<u>104,378</u>

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Group at that date are set out in the financial statements on pages 27, 30, 31 and 32, respectively. The Company's state of affairs are set out in the financial statements on page 36 and 37.

An interim dividend in scrip form equivalent to HK1.0 cent per share, with a cash option, amounting to an aggregate of HK\$4,320,000 was paid during the year, out of which approximately HK\$1,614,000 was satisfied by the allotment of 5,042,153 new shares of HK\$0.10 each in the Company, credited as fully paid, by way of scrip dividend, while the remaining HK\$2,706,000 was satisfied by the payment of cash.

The directors recommend the payment of a final dividend of HK2.0 cents per share in respect of the year to shareholders on the register of members on 28 May 2001 to be satisfied by the allotment of new shares in the Company, credited as fully paid, by way of scrip dividend, with an alternative to the shareholders to elect to receive such dividend (or part thereof) in cash in lieu of such entitlement. The total cash alternative to which shareholders are entitled is HK\$8,660,000, which has been deducted from the profit for the year. The remaining profit for the year of HK\$56,242,000 will be retained.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 88 and 89. This summary is not part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 15 to the financial statements.

JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Group's interests in its jointly-controlled entities and associates are set out in notes 16 and 17 to the financial statements, respectively.

BORROWINGS

Details of the borrowings of the Company and the Group are set out in notes 23 to 25 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights 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 LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2000, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$39,722,000. In addition, the Company's share premium account, in the amount of HK\$156,313,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 36% of the total sales for the year and sales to the largest customer included therein amounted to 12%. Purchases from the Group's five largest suppliers accounted for 53% of the total purchases for the year and purchases from the largest supplier included therein, which is a jointly-controlled entity of the Group, amounted to 18%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Poon Ka Hung

Mr. Wu Lai Ping

Mr. Leung Chun Pong

Mr. Lin Hoo Fun (appointed on 3 August 2000)

Independent non-executive directors:

Mr. Fung Chi Kong, Edward

Mdm. Cheung Mei Ha, Jennifer

Mr. Chan Wing Tai, Joseph

Dr. Jack Lau (retired on 26 June 2000)

In accordance with the Company's bye-laws, Mr. Leung Chun Pong and Mr. Lin Hoo Fun will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Poon Ka Hung, aged 50, Chairman and Chief Executive Officer (“CEO”) of the Group. He is one of the founders of the Group and is responsible for its strategic planning. He has over 27 years of management experience and an in-depth knowledge of the electronics industry. Mr. Poon is a Committee Member of the Chinese People’s Political Consultative Conference Jiangsu Provincial Committee.

Mr. Wu Lai Ping, aged 56, Vice Chairman of the Group. He is responsible for the overall production of the Group and has over 34 years of experience in production management and quality control in the electronics field. He is one of the founders of the Group and is also the Managing Director of the Group’s Audio Division.

Mr. Lin Hoo Fun, aged 45, Managing Director of the In-car Electronics Division. He holds a Higher Certificate in Electronic Engineering from the Hong Kong Polytechnic University. Prior to joining the Group, he held a senior management position in a large electronics manufacturer in Hong Kong. He has over 24 years of experience in the in-car electronics industry.

Mr. Leung Chun Pong, aged 53, has over 31 years of experience in engineering, design and manufacturing operations, within which over 17 years at the managerial level in electronics manufacturing in Hong Kong, China and Japan before joining the Group in 1991. He is the Managing Director of Clarion Orient Co., Limited, a joint venture with Clarion Group of Japan for the manufacture of in-car electronics products.

Independent Non-executive Directors

Mr. Fung Chi Kong, Edward, aged 43, is a solicitor practising in Hong Kong. Mr. Fung joined the Group as a non-executive director in 1994.

Mdm. Cheung Mei Ha, Jennifer, aged 45, is a solicitor practising in Hong Kong. Mdm. Cheung joined the Group as a non-executive director in 1993.

Mr. Chan Wing Tai, Joseph, aged 45, is a practising accountant in Hong Kong. Mr. Chan joined the Company as a non-executive director on 29 October 1999.

Management Board

Mr. Yeung Sau Hung, Alex, aged 52, Deputy Chairman of the Management Board. He was educated in the USA and holds a bachelor degree in economics and engineering, and a Master degree of Business Administration. Mr. Yeung has over 21 years of experience in equity market throughout Asia gained from senior management positions of major international investment banks.

Mdm. Cheung Mei Yee, Lorna, aged 47, Group Controller. She joined the Group in 1986 and has over 25 years of experience in financial control and administration.

Mr. Chan Chin King, Michael, aged 46, Director of Finance. He holds a bachelor degree of Business Administration from a Canadian university. Mr. Chan has over 21 years of experience in corporate banking, finance, commodity trading and electronics industry.

Mr. Yeung, James, aged 40, Director of Administration. He is a graduate from the University of Southern California. He has over 15 years of experience in commercial banking, financial planning and management.

Mr. Pong Yiu Ming, Stephen, aged 50, Chief Executive of the Home Entertainment Division. He is a graduate of Electronics and Mechanical Engineering from the Hong Kong Polytechnic University. Mr. Pong has over 25 years of experience in the consumer electronics industry, with majority of the time working for a major US retailer as Regional Merchandising Manager. Between 1994 and 1997, Mr. Pong was the Managing Director of the Audio Division for the Group. Before re-joining the Group during 2000, he was the Executive Director and Chief Merchandising Officer of a sizeable retail group in Hong Kong.

Mr. Lee Kwa Ching, Peter, aged 53, Chief Operating Officer of the Group and CEO of the Network Information/Entertainment Solution Division. He holds a Master of Law degree from Peking University, a banking Diploma from Wharton, an MBA from a California State University as well as a B.A. (Hons) from the Chinese University of Hong Kong. Mr. Lee has over 20 years of experience in senior management capacity in banking and operations management with major global financial institutions and telecommunication companies in Hong Kong and the USA.

Dr. Yung Ming Lai, aged 52, Chief Technical Officer of the Group. He holds a PH.D. Degree in Electronics and Microwave. Prior to joining the Group, he has over 20 years of design experience in radio frequency and microwave electronics and is the principal inventor for over three patents. He held senior design, engineering and management positions with a number of large microelectronics companies in Hong Kong, the United Kingdom, Canada and the USA.

Mr. Rowe, John Michael, aged 54, Managing Director of the Video Division. He is a graduate of the Leeds Polytechnic University majoring in Electrical Engineering. Throughout his career, he has been involved in the design and manufacture of television receivers and related products. Prior to joining the Group, he held similar positions with the EMI Group and British Radio Corporation in the United Kingdom.

Senior Management

Mr. Ip Shing Wo, Daniel, aged 54, President of Orient Power (Jiangsu) Electronics Limited. He attended the RCA Institute in New York in the early seventies and since he has spent over 30 years working as well as venturing in the consumer electronics industry including aspects of marketing, engineering and manufacturing. He is currently responsible for the Group's distribution business in the PRC.

Mr. Chow Sau Ming, aged 39, Business Director of the Audio Division. He graduated in 1983 and obtained an endorsement to higher certificate in mechanical engineering in 1986 from the Hong Kong Polytechnic University. He is presently a member of the Institute of Management Services. He joined the Group in 1988 and has over 11 years of experience in design and project engineering.

Mr. Shoji Ando, aged 57, Director of OEM Business (Japan) of the Group. He holds a bachelor degree of Physics from Chuo University in Japan. He has over 31 years of experience in electrical design, engineering and management functions in audio products and held senior positions with a number of large international companies in Japan, Singapore and China.

Mr. Lau Chak Ning, William, aged 37, General Manager of Orient Power Hi-Fi Mfg. Ltd. Prior to joining the Group, he has been with the audio industry for over 10 years and is experienced in audio product design. Since 1999, he has developed A/V Receivers on ODM basis in Hong Kong for a renowned overseas home Hi-Fi customer, as well as other home and professional audio customers, namely, AV Receivers, High Power Amplifiers, Mixers & Portable Sound System, etc.

Mr. Jiang Wen, aged 35, is a General Manager of the Group. He is a graduate of Tsinghua University in Industrial Automation Engineering and also holds a Master of Science degree from High Energy Physics Research Institute of China Science Academy. He has over 11 years of experience in technical development, marketing and management in the advanced technology industry. He is responsible for the development of technology and marketing for the Group's cable TV business.

Mr. Wu Lynn, aged 37, Deputy General Manager of Orient Power Xian GPS Electronics Limited. He holds a bachelor degree of Aeronautics and Astronautics from Radar and Navigation in Beijing University and obtained a master degree of Business Administration from Xian Jiaotong University. Prior to joining the Group, he has over 14 years of aviation and navigation experience in Xian Research Institute of Navigation Technology and Xian Huaxing Research Institute of Satellite Navigation in China.

Mr. Lee Tino, aged 30, Group Accounting Manager. He is an Associate of Hong Kong Society of Accountants and a Certified Practising Accountant of CPA Australia. He holds a bachelor degree in Accountancy from Queensland University of Technology. Prior to joining the group in 2000, Mr. Lee has over seven years of auditing and accounting experience in retail and manufacturing industries.

AUDIT COMMITTEE

The Company established an audit committee in 1999, with written terms of reference for the primary duties of reviewing the financial reporting process and internal control system of the Group.

The audit committee has reviewed the financial statements of the Company for the year ended 31 December 2000.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors and of the five highest paid individuals in the Group are set out in notes 6 and 7 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Messrs. Poon Ka Hung and Wu Lai Ping each entered into a service agreement with the Company for a term of three years commencing from 1 September 1994, which has continued thereafter until terminated by either party giving to the other three months' written notice. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The non-executive directors are not appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

Save as disclosed above, 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 other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2000, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Shares of the Company

Name of director	Notes	Number of shares held and nature of interest	
		Personal	Corporate
Mr. Poon Ka Hung	(a)	–	161,870,103
Mr. Wu Lai Ping	(a)	–	161,870,103
Mr. Lin Hoo Fun	(b)	–	48,850,327
Mr. Leung Chun Pong		92,370	–

Notes:

- (a) The number of shares held as corporate interests of Messrs. Poon Ka Hung and Wu Lai Ping refers to the same parcel of shares which were held by High Rate Investments Limited, a company beneficially owned as to 50% by Mr. Poon Ka Hung and the balance of 50% by family trusts of which Mr. Wu Lai Ping and his family members are beneficiaries.
- (b) The number of shares held as corporate interests of Mr. Lin Hoo Fun were held by Newray Int'l Limited, a company beneficially owned by Mr. Lin Hoo Fun.

Messrs. Poon Ka Hung and Wu Lai Ping together indirectly controlled more than one-third of the issued shares of the Company and accordingly they were deemed to have interests in the share capital or registered capital of the subsidiaries, associates and jointly-controlled entities of the Company.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest 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

Pursuant to the Company's share option scheme, the Company granted options in favour of certain directors to subscribe for shares in the Company. Details of the options granted are as follows:

Name of director	Number of share options at 31 December 1999 and outstanding at end of year	Exercise period of share options	Exercise price of share options
Mr. Poon Ka Hung	1,000,000	22 October 1996 to 25 March 2001	HK\$0.26
Mr. Wu Lai Ping	1,000,000	22 October 1996 to 25 March 2001	HK\$0.26
Mr. Lin Hoo Fun	1,000,000	22 October 1996 to 25 March 2001	HK\$0.26

All of the share options granted to the directors, which remained outstanding at 31 December 2000, lapsed unexercised upon the expiry of the exercise period subsequent to the balance sheet date.

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights previously granted to them exercised by them during the year. Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 27 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Interest %
High Rate Investments Limited	161,870,103	37.4
Newray Int'l Limited	48,850,327	11.3

These interests have also been disclosed as interests of Messrs. Poon Ka Hung, Wu Lai Ping and Lin Hoo Fun under the section headed "Directors' interests in shares" above.

Save as disclosed above, as at 31 December 2000, no person, other than the directors and the chief executives of the Company, whose interests are set out in the section headed "Directors' interests in shares" above, 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.

CONNECTED TRANSACTIONS

Prior to 31 March 2000, the Company had executed guarantees in favour of banks in respect of facilities granted to Telefield Limited ("Telefield"), up to an aggregate amount of HK\$29,314,000. The minority shareholder of Telefield had also executed a counter indemnity in favour of the Company to the extent of its proportional 49% interest. As financial assistance was provided by the Company to Telefield by way of the guarantees exceeding its proportional interest in Telefield, the transaction constituted a connected transaction for the Company pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). On the basis of the written approval given by the majority shareholders of the Company, the Stock Exchange of Hong Kong Limited has granted a waiver to the Company from the requirement under the Listing Rules in respect of the holding of a physical shareholders' meeting of the

Company for approval of the transaction. The directors consider that the transaction was fair and reasonable and was in the interests of the Company. This guarantee was revoked on 31 March 2000 subsequent to the disposal of Orient Power Telecommunication Limited, the immediate holding company of Telefield.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 2 and 4 to the financial statements, respectively.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

AUDITORS

Ernst & Young 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

Poon Ka Hung

Chairman

Hong Kong

10 April 2001