

Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries have not changed during the year and consisted of the design, manufacture and sale of consumer electronics products, components products, money lending, investment holding and investment property holding. During the year, the subsidiaries related to design, manufacture and sale of consumer electronics products were disposed of to The Grande Group.

SEGMENTED INFORMATION

An analysis of Group turnover and operating profit/(loss) before share of results of associates by principal activity and geographical area of operations for the year ended 31st December, 2000 is as follows:

	Turnover HK\$'000	Operating profit/ (loss) before share of results of associates HK\$'000
By activity		
Continuing operations		
Sale of components and related products	279,947	14,599
Others	88,910	16,609
	<hr/> 368,857	<hr/> 31,208
Discontinued operations		
Sale of consumer electronics products	1,405,689	10,287
	<hr/> <u>1,774,546</u>	<hr/> 41,495
Profit on disposal of subsidiaries		111,982
Provision for doubtful debts		(367,285)
Provision against interests in associates		(36,572)
Provision for impairment of properties, plant and equipment		(18,329)
Other expenses less other income		<hr/> (53,252)
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	Turnover HK\$'000	Operating profit/ (loss) before share of results of associates HK\$'000
By geographical area		
Continuing operations		
China including Hong Kong	177,632	24,975
Europe	20,595	2,714
United States of America	21,208	1,351
Japan	148,990	2,151
Others	432	17
	<hr/>	<hr/>
	368,857	31,208
Discontinued operations		
China including Hong Kong	177,385	959
Europe	319,868	1,376
United States of America	258,877	1,063
Japan	354,481	4,008
Others	295,078	2,881
	<hr/>	<hr/>
	1,405,689	10,287
	<hr/>	<hr/>
	1,774,546	41,495
	<hr/>	<hr/>
Profit on disposal of subsidiaries		111,982
Provision for doubtful debts		(367,285)
Provision against interests in associates		(36,572)
Provision for impairment of properties, plant and equipment		(18,329)
Other expenses less other income		(53,252)
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		(321,961)
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RESULTS AND DIVIDENDS

The Group's loss for the year ended 31st December, 2000 and the state of affairs of the Company and the Group at that date are set in the financial statements on pages 21 to 60.

No interim dividend was paid during the year (1999: Nil) and the directors do not recommend the payment of a final dividend in respect of the year (1999: Nil).

CHANGE OF COMPANY'S NAME

On 29th August, 2000, the Company's name was changed from Toyo Holdings Limited to O2New Technology Limited.

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SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below:

	2000 HK\$'000	Year ended 31st December			
		1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
Results					
Turnover	1,774,546	4,139,174	4,278,739	4,556,203	4,821,548
Profit/(loss) before tax	(325,197)	(602,304)	(277,756)	81,105	47,782
Tax	(124)	(10,435)	(9,833)	(11,133)	(9,146)
Profit/(loss) before minority interests	(325,321)	(612,739)	(287,589)	69,972	38,636
Minority interests	378	1,246	7,786	156	4,784
Net profit/(loss) attributable to shareholders	(324,943)	(611,493)	(279,803)	70,128	43,420

	2000 HK\$'000	31st December			
		1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
Assets and liabilities					
Properties, plant and equipment	20,633	372,363	819,753	879,745	883,826
Investment properties	24,810	32,558	16,250	20,650	30,350
Long term investments	–	–	80,205	123,943	179,715
Interests in associates	180,264	75	164,885	71,364	77,133
Intangible assets	–	–	73,033	84,452	64,910
Deposits paid	–	–	–	185,250	30,000
Current assets	694,466	1,436,417	1,083,676	1,491,777	1,549,031
Total assets	920,173	1,841,413	2,237,802	2,857,181	2,814,965
Current liabilities	(574,576)	(1,245,314)	(1,029,233)	(1,321,388)	(1,286,203)
Interest bearing bank and other borrowings	–	–	(26,365)	(61,971)	(128,045)
Deferred tax	(2,069)	(9,230)	(6,552)	(6,572)	(7,254)
Minority interests	(309)	(10,530)	(44,355)	(61,291)	(55,187)
Total liabilities	(576,954)	(1,265,074)	(1,106,505)	(1,451,222)	(1,476,689)
Net assets	343,219	576,339	1,131,297	1,405,959	1,338,276

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ACCOUNTING POLICIES

The principal accounting policies of the Group are set out in note 2 to the financial statements.

PROPERTIES, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the properties, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries at the balance sheet date are set out in note 16 to the financial statements.

ASSOCIATES

Particulars of the Group's principal associates at the balance sheet date are set out in note 15 to the financial statements.

BANK BORROWINGS

Details of the Company's and Group's bank borrowings at the balance sheet date are set out in note 22 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital, together with the reasons therefore, and share options are set out in note 24 to the financial statements.

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st December, 2000, the Company's share premium account, in the amount of HK\$727,855,000 (1999: HK\$652,805,000), was available to be distributed in the form of fully paid bonus shares.

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DISTRIBUTABLE RESERVES *(continued)*

At 31st December, 2000, the Company had contributed surplus and retained losses of HK\$502,176,000 and HK\$919,013,000, respectively (1999: HK\$502,176,000 and HK\$460,362,000, respectively). Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is distributable to shareholders. The Companies Act of Bermuda also stipulates that a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium account.

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in note 29 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000:

- (i) the aggregate amount of turnover attributable to the five largest customers represented 67% of the Group's total turnover. Sales to the largest customer included therein amounted to 28%; and
- (ii) the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the five largest suppliers accounted for less than 22% of the Group's total purchases.

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

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DIRECTORS

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

	Appointed	Resigned
Hon Tak Kwong, Duncan	28th June, 2000	3rd November, 2000
Lee Jean	28th June, 2000	23rd November, 2000
Shaw Wen Fei	28th June, 2000	
Tsoi Ka Chi, Morris	28th June, 2000	
Wong Che Keung, Richard*	28th June, 2000	
Wong Tak Lan, Mary Teresa*	28th June, 2000	
Lui Chun Bing, Tommy	29th September, 2000	
Liu Tsz Kwan, Tanya	3rd November, 2000	
Shum Siu Hung	3rd November, 2000	
Lee Hoong Seun	23rd November, 2000	
Etsuro Tago*		28th June, 2000
Hideo Matsuoka		28th June, 2000
Hirohisa Kudo		28th June, 2000
Jun Ishikawa*		28th June, 2000
Koichi Enomoto		28th June, 2000
Lee Ming Kong		28th June, 2000
Ma Chi Chiu, Adrian		28th June, 2000
Michael Andrew Barclay Binney		28th June, 2000
Shun Shindo		28th June, 2000
Yuen Kin, Samuel		28th June, 2000
Cheung King Kwok, Michael		3rd November, 2000
Christopher W. Ho		3rd November, 2000

* Independent non-executive directors

In accordance with Bye-Law 97 of the Company's Bye-Laws, Tsoi Ka Chi, Morris and Wong Tak Lan, Mary Teresa shall retire at the forthcoming annual general meeting of the Company. Tsoi Ka Chi, Morris, being eligible, offers himself for re-election and Wong Tak Lan, Mary Teresa does not offer herself for re-election.

DIRECTORS' SERVICE CONTRACTS

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.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to a share option scheme duly approved on 23rd May, 1997, the directors may, at their discretion, grant options to executive directors, employees or service providers of the Company and its subsidiaries to subscribe for shares in the Company. Certain directors were granted options in prior years under the Company's share option scheme to subscribe for shares in the Company. Such options lapsed during the year on 1st June, 2000. Particulars of the share option scheme are set out in note 24 to the financial statements.

During the year, no director exercised his/her right under the share option scheme to acquire shares of the Company. As at the balance sheet date, no share options were outstanding.

Apart from the foregoing, at no time during the year was the Company, its holding companies, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2000, the interests of directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of directors	Notes	Number of shares held Corporate interests
Shum Siu Hung	a	800,000,000
Lui Chun Bing, Tommy	b	300,000,000
Tsoi Ka Chi, Morris	c, d	233,650,000
Shaw Wen Fei	e	106,490,000

Notes:

- held through Innoanswer Limited
- held through Sharp Power Limited
- 138,300,000 shares held through Saver Technology Limited
- 95,350,000 shares held through Asiapointer.com Limited
- held through Sharp States Investments Inc.

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Save as disclosed above, none of the directors and/or their associates had any personal, family, corporate or other interests in the equity of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest in any material contract to which the Company, its holding companies, any of its subsidiaries or fellow subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the following person was recorded in the register of interests as having an interest of 10 percent or more in the issued share capital of the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	%
Innoanswer Limited	800,000,000	22.60

Shum Siu Hung has beneficial interest in Innoanswer Limited. This interest was also included as corporate interests of Shum Siu Hung in "Directors' interests in share capital" above.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

REFORMATION OF AUDIT COMMITTEE

The Group reformed its Audit Committee on 23rd March, 2001. The Committee comprises two independent non-executive directors, namely, Wong Che Keung, Richard and Wong Tak Lan, Mary Teresa, and is set to provide guidance and advice on corporate governance, and make suggestions on improving the financial reporting process and internal control of the Group. The Group has consulted Practice Note on "A Guide for The Formation of An Audit Committee" issued by the Hong Kong Society of Accountants when setting out the duties of the Audit Committee.

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CONNECTED TRANSACTIONS

- (i) The Grande Holdings Limited, and its associates (the "Grande group"), was a connected person of the Group during the year. During the year, the Group sold components and related products of HK\$25,461,000, purchased raw materials of HK\$598,000 and paid general and administrative expenses of HK\$14,312,000 to the Grande group. The net outstanding balance due to the Grande group at the balance sheet date amounted to HK\$512,990,000. Interest and similar charges of HK\$103,751,000 were charged on these loans during the year. These transactions had been carried out on normal commercial terms, in the ordinary and usual course of business of the Group and, in the opinion of the directors, are fair and reasonable insofar as the shareholders of the Company are concerned.
- (ii) Tomei International (BVI) Limited and its subsidiaries were disposed of to the Grande group at a consideration of HK\$181,429,000 during the year. The former independent non-executive directors of the Company not connected with the Grande group have reviewed these transactions and confirmed that they are fair and reasonable insofar as the shareholders of the Company are concerned.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

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 of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report. 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 provisions of the Company's Bye-Laws.

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DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

Advance to an entity

As disclosed in last year's annual report, the Company entered into a loan agreement dated 15th November, 1999 in which the Company agreed to extend an on demand revolving loan facility of up to HK\$630,000,000 to the Akai Group, and as at 31st December, 1999, HK\$655,305,000 including principal and interest accrued was due from the Akai Group. As further disclosed in an announcement dated 26th August, 2000, the net amount outstanding increased to HK\$767,000,000 as at 30th June, 2000. As at the year end date, the net outstanding balances totalled HK\$600,000,000 after provision of HK\$308,600,000. The gross amounts include principal and interest accrued, are secured by various assets including certain listed and unlisted shares, trademarks and certain tangible assets, bear interest at prime rate plus 2% per annum, and are repayable on demand.

AUDITORS

The former auditors, Ernst & Young who have been acting as auditors for the Group for the last 3 years, resigned during the year covered by this report and were replaced by Moore Stephens who now retire and, being eligible, offer themselves for reappointment. The Board appreciates the contributions made by the former auditors.

On behalf of the Board

Shum Siu Hung

Chairman

Hong Kong

24th April, 2001

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