

R E P O R T O F

the Directors

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries are engaged in the design, manufacture and marketing of consumer audio and video products. The design, manufacture and marketing of consumer video products was new business entered into by the Group during the year.

Details of the principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal activity and geographical area of markets is set out in note 3 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 68.

An interim dividend of HK1.0 cent per share was paid to shareholders on 16 January 2001. The directors recommend the payment of a final dividend of HK0.5 cents per share in cash to shareholders whose names appear on the register of members on 12 September 2001. This recommendation has been incorporated in the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$132,679,000. Under the Companies Law (1998 Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and, provided that immediately following the distribution of dividends, the Company is able to pay its debts as and when they fall due in the ordinary course of business. In the opinion of the directors, the Company's reserves available for distribution represent the share premium, contributed surplus and retained profits.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 81% of the total turnover of the Group and the largest customer accounted for approximately 40% of the total turnover of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 45% of the total purchases of the Group and the largest supplier accounted for approximately 20% of the total purchases of the Group.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")), nor any shareholders which to the knowledge of the directors own more than 5% of the Company's issued share capital, had any interest in the five largest customers or suppliers.

FIVE YEAR FINANCIAL SUMMARY

A summary of the combined/consolidated results and of the assets and liabilities of the Group is set out on pages 69-70 of the annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 March 2001 are set out in note 14 to the financial statements.

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements in the share capital, warrants and share options of the Company during the year and the reasons therefor are set out in note 23 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 March 2001 are set out in note 20 to the financial statements.

INTEREST CAPITALISED

Interest of approximately HK\$1,714,000 (2000: Nil) was capitalised during the year in respect of the Group's fixed assets.

PENSION COSTS

The retirement scheme contributions made by the Group during the year amounted to HK\$1,903,000 and were in respect of employees of the Group in Hong Kong who were members of either the Group's defined contribution retirement schemes or the mandatory provident fund. The total forfeited contributions during the year were HK\$79,000. As at 31 March 2001, no forfeited contributions were available to reduce the Group's contributions to the retirement schemes in future years.

DIRECTORS

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

Executive directors:

Ling Siu Man, Simon (*Chairman and Managing Director*)

Lee Ka Yue, Peter

Wong Ki Cheung

Li Fung Ching, Catherine

Au Wai Man

Liu Hoi Keung, Gary

Non-executive directors:

Wong Wai Kwong, David

Ho Fook Hong, Ferdinand*

Pang Hon Chung*

* *Independent non-executive directors*

In accordance with article 116 of the Company's articles of association, Au Wai Man and Ho Fook Hong, Ferdinand will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of the non-executive directors are the periods from their dates of appointment up to their retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' SERVICE CONTRACTS

All the executive directors, other than Lee Ka Yue, Peter, have entered into service contracts with the Company for terms of three years commencing from 1 October 2000.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF DIRECTORS AND OF THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' remuneration and that of the five highest paid employees in the Group are set out in notes 5 and 6 to the financial statements, respectively.

DIRECTORS' INTERESTS IN SECURITIES

At 31 March 2001, the interests of directors or their associates in the issued share capital of the Company and its associated corporation, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

- a) The Company

Name of directors	Nature of interest	Number of ordinary shares held
Ling Siu Man, Simon	Corporate (<i>Note</i>)	317,886,782
Wong Ki Cheung	Personal	938,000
Li Fung Ching, Catherine	Personal	1,200,000
Liu Hoi Keung, Gary	Personal	3,920
Pang Hon Cheung	Personal	742,000

Note: These shares were held by Success Forever Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Ling Siu Man, Simon.

- b) Associated corporation

At 31 March 2001, Ling Siu Man, Simon personally held 2,850 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

Save as disclosed above, and other than certain shares of the Company's subsidiaries held by certain directors in trust for the Group, none of the directors or their associates had any interest in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the share option scheme of the Company are set out in note 23 to the financial statements. During the year, on 10 April 2000, the Company granted a total of 19,050,000 options to the executive directors of the Company to subscribe for a total of 19,050,000 ordinary shares of the Company at an exercise price of HK\$0.70 per share on or before 9 April 2010. In the absence of a readily available market value of the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted, and accordingly no value has been included in the remuneration above in relation thereto.

None of the above share options was exercised during the year and the number of share options held by each director as at 31 March 2001 were as follows:

	Number of share options
Ling Siu Man, Simon	10,000,000
Lee Ka Yue, Peter	1,810,000
Wong Ki Cheung	1,810,000
Li Fung Ching, Catherine	1,810,000
Au Wai Man	1,810,000
Liu Hoi Keung, Gary	1,810,000
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	<u>19,050,000</u>

Apart from the foregoing, 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 directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 28 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party in which any director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Percentage of issued share capital (%)
Success Forever Limited (<i>Note 1</i>)	317,886,782	50.04
Eco-Haru Manufacturing Holdings Limited ("Eco-Haru") (<i>Note 2</i>)	121,100,869	19.06
Glorious Concept Limited ("Glorious Concept") (<i>Note 2</i>)	7,744,000	1.22
EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil") (<i>Note 2</i>)	128,844,869	20.28
Peninsula International Limited ("Peninsula") (<i>Note 3</i>)	128,844,869	20.28

Notes:

- 1) The entire issued share capital of Success Forever Limited is beneficially owned by Ling Siu Man, Simon as disclosed in "Directors' interests in securities" above.
- 2) The entire issued share capital of Eco-Haru and Glorious Concept is beneficially owned by EganaGoldpfeil.
- 3) The entire issued share capital of EganaGoldpfeil is held as to 39.02% by Peninsula.

Save as disclosed above and other than the directors of the Company whose interests are set out above, no persons had an interest of 10% or more in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Details of connected transactions of the Company are set out in note 28 to the financial statements.

CONNECTED TRANSACTIONS *(Continued)*

The independent non-executive directors of the Company have reviewed and confirmed that the connected transactions were conducted in the ordinary and usual course of the Group's business and are fair and reasonable so far as the Company's shareholders are concerned, or in accordance with the terms of the agreements governing the transactions.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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 year.

AUDIT COMMITTEE

Pursuant to the requirement of the Listing Rules, the Company has established an audit committee which comprises all the Company's non-executive directors. Except for Wong Wai Kwong, David, all members of the audit committee are independent non-executive directors. There are written terms of reference describing the authority and duties of the audit committee. The audit committee's principal duties include the review and supervision of the Group's financial reporting process and internal controls.

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

LING Siu Man, Simon

Chairman

Hong Kong

17 July 2001