

The directors present their annual report and the audited financial statements of the Company and of the Group for the year ended 31 March 2002.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The subsidiaries are engaged in the design, manufacture and marketing of consumer audio, video products and home appliances products. There were no changes in the nature of the Company's principal operations during the year.

Details of the principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

### **SEGMENT INFORMATION**

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

### **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 March 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 28 to 78.

An interim dividend of HK0.5 cent per share was paid to shareholders on 17 January 2002. The directors recommend the payment of a final dividend of HK0.5 cent per share in cash to shareholders whose names appear on the register of members on 19 September 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to 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 27 to the financial statements.

### **DISTRIBUTABLE RESERVES**

At 31 March 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$115,332,000. Under the Companies Law (2000 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 account, contributed surplus and retained profits.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the five largest customers in aggregate accounted for approximately 68% of the total turnover of the Group and the largest customer accounted for approximately 24% of the total turnover of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 39% of the total purchases of the Group and the largest supplier accounted for approximately 15% 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 consolidated results and of the assets and liabilities of the Group is set out on page 79 of the annual report.

### **FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year 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 26 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.

## 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, Pang Hon Chung and Liu Hoi Keung, Gary will retire and, being eligible, will 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.

### DIRECTORS' INTERESTS IN SECURITIES

At 31 March 2002, the interests of directors or their associates in the issued share capital of the Company and its associated corporations, 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 (Note)	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	1,412,000

*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 2002, 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**

Apart from as disclosed under the headings "Directors' interests in securities" above and "Share option scheme" below, 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 32 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.

### **SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Option Scheme include the Company's executive directors or employees of the Group. The Option Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 October 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Other details of the Option Scheme disclosed in accordance with the Listing Rules are as follows:

- The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue from time to time. At 31 March 2002, the number of shares issuable under share options granted under the Option Scheme was 48,250,000, which represented approximately 7.6% of the Company's shares in issue as at that date. No option may be granted to any one employee which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Option Scheme exceeding 25% of the maximum aggregate number of shares subject to the Option Scheme at the time it is proposed to grant the relevant option to such employee.

**SHARE OPTION SCHEME** *(Continued)*

- The exercise price of the share options is determined by the directors and equal to the higher of: (i) the nominal value of the shares; or (ii) a price, being not less than 85% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant of such options.
- An option may be exercised in accordance with the terms of the Option Scheme at any time from the date of acceptance of the option by the employee or such later date as may be fixed by the directors, to any date prior to the tenth anniversary of such date provided that the employee can only exercise a maximum of 20% of the options granted to him in each 12 month period following the commencement of the relevant option period. The consideration to be paid by the employee upon acceptance of an option is HK\$1.00.

With effect from 1 September 2001, the Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Stock Exchange on the date of grant and the average closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, the Company has not granted any options on or after 1 September 2001.

**SHARE OPTION SCHEME** (Continued)

The following share options were outstanding under the Option Scheme during the year:

	<b>At 1 April 2001</b>	<b>Number of outstanding share options cancelled during the year</b>	<b>At 31 March 2002</b>	<b>Date of grant of share options</b>	<b>Exercise period of share options</b>	<b>Exercise price of share option HK\$</b>
<b>Directors</b>						
Ling Siu Man, Simon	10,000,000	–	10,000,000	07-04-00	10-04-00 to 09-04-10	0.70
Lee Ka Yue, Peter	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Wong Ki Cheung	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Li Fung Ching, Catherine	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Au Wai Man	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
Liu Hoi Keung, Gary	1,810,000	–	1,810,000	07-04-00	10-04-00 to 09-04-10	0.70
	<u>19,050,000</u>	<u>–</u>	<u>19,050,000</u>			
<b>Other employees</b>						
In aggregate	29,750,000	550,000	29,200,000	07-04-00	10-04-00 to 09-04-10	0.70
	<u>48,800,000</u>	<u>550,000</u>	<u>48,250,000</u>			

No theoretical value of share options is disclosed as no share options were granted during the year.

Summary details of the Company's share option scheme are also set out in note 26 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, 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:

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>Percentage of issued share capital (%)</b>
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> )	36,274,000	5.71
EganaGoldpfeil (Holdings) Limited (“EganaGoldpfeil”) ( <i>Note 2</i> )	157,374,869	24.77
Peninsula International Limited (“Peninsula”) ( <i>Note 3</i> )	157,374,869	24.77

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 32 to the financial statements.

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

16 July 2002