

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st March 2005.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 32 and 17 to the financial statements respectively.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March 2005 are set out in the consolidated income statement on page 26.

The directors do not recommend the payment of a final dividend for the year ended 31st March 2005.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 72.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$26,669,000 on additions to property, plant and equipment mainly for the expansion and enhancement of production capability.

Details of movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the financial statements.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17th August 2005 to 19th August 2005, both days inclusive, during which period no transfer of shares will be effected.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

**DIRECTORS' REPORT** (CONTINUED)**DIRECTORS**

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

**Executive directors:**

Mr. Kao Cheung Chong, Michael (*Chairman*)

Mr. Kao Wai Ho, Francis (*Deputy Chairman and Chief Executive Officer*)

Mr. Tse Chi Man, Terry (appointed on 9th August 2004)

**Non-executive directors:**

Mr. Lam Pak Kin, Philip (re-designated from executive director to non-executive director on 16th June 2005)

Mr. Zhang Liping (re-designated from executive director to non-executive director on 13th September 2004 and resigned on 4th March 2005)

Mr. Zhuo Fu Min (resigned on 8th April 2004)

**Independent non-executive directors:**

Mr. Oh Kok Chi

Mr. Ng See Yuen (appointed on 20th April 2004 as non-executive director and re-designated as independent non-executive director on 7th September 2004)

Mr. Lai Chi Kin, Lawrence (appointed on 4th March 2005)

Mr. Randy Harris (appointed on 20th April 2004 and resigned on 4th March 2005)

Mr. Alexander Reid Hamilton (resigned on 6th August 2004)

In accordance with Article 87 of the Company's Bye-laws, Mr. Ng See Yuen shall retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with Article 86(2) of the Company's Bye-laws, Mr. Tse Chi Man, Terry and Mr. Lai Chi Kin, Lawrence, who were appointed as directors by the board of directors, will hold office until the forthcoming annual general meeting. They, being eligible, offer themselves for re-election.

The term of office for each non-executive director and independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

**DIRECTORS' REPORT** (CONTINUED)

**DIRECTORS' SERVICE CONTRACTS**

An executive director and a non-executive director of the Company have each entered into a service contract with the Company for an initial term of three years commencing 1st February 1997 and their appointment shall continue thereafter, subject to termination by either party giving at least six months' prior notice to the other party.

One executive director of the Company has entered into a service contract with the Company for an initial term commencing 9th August 2004 and ending on 30th June 2006, and thereafter shall continue for further successive period of two years automatically commencing from the day next after the expiry of the current term of the director's appointment, unless and until terminated by either party giving not less than three months' prior written notice at any renewed term after the initial term.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES AND UNDERLYING SHARES**

As at 31st March 2005, the interests of the directors and chief executives and their associates in the securities and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

**Long position**
**(A) Interests in the Company's securities**

Name of directors	Number of ordinary shares of HK\$0.50 each held				Percentage of issued share capital
	Personal interest	Corporate interest	Other interest	Total interest	
Mr. Kao Cheung Chong, Michael	5,583,000	1,874,604 (note (i))	119,563,298 (note (ii))	127,020,902	54.30%
Mr. Kao Wai Ho, Francis	194,400	1,230,000 (note (iii))	119,563,298 (note (ii))	120,987,698	51.72%
Mr. Lam Pak Kin, Philip	406,800	–	–	406,800	0.17%
Mr. Lai Chi Kin	72,300	–	–	72,300	0.03%

**DIRECTORS' REPORT** (CONTINUED)

**DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES AND UNDERLYING SHARES**
*(Continued)*
*Long position (Continued)*
**(A) Interests in the Company's securities (Continued)**
*Notes:*

- (i) These shares are held by Kessuda Consultants Limited whose entire issued share capital is beneficially owned by Mr. Kao Cheung Chong, Michael.
- (ii) 2,439,597 shares of the Company are beneficially owned by Happy Nation Limited, whose entire issued share capital is beneficially owned by China Link Holding Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for The Cheerco Trust, of which Mr. Kao Cheung Chong, Michael and his family members, including Mr. Kao Wai Ho, Francis, are discretionary objects. The remaining 117,123,701 shares which represents 50.07% of issued share capital of the Company, are beneficially owned by Sunni International Limited, 54.67% of whose issued share capital is beneficially owned by Happy Nation Limited.
- (iii) These shares are held by Asia Pacific Glory Limited whose entire issued share capital is beneficially owned by Mr. Kao Wai Ho, Francis.

**(B) Share options of the Company**

<b>Name of director</b>	<b>Capacity</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
Mr. Tse Chi Man, Terry	Beneficial owner	1,300,000	1,300,000

**(C) Interests in associated corporations**

<b>Name of directors</b>	<b>Name of associated corporations</b>	<b>Class of shares</b>	<b>Number of shares (personal interest)</b>	<b>Percentage of issued share capital</b>
Mr. Kao Cheung Chong, Michael	Boto International Holdings Limited	Ordinary shares of US\$1 each	7,705	6.93%
	Sunni International Limited	Ordinary shares of US\$1 each	5,637	54.67%
Mr. Lam Pak Kin, Philip	Boto International Holdings Limited	Ordinary shares of US\$1 each	1,053	0.95%
	Sunni International Limited	Ordinary shares of US\$1 each	310	3.00%

Other than as disclosed above and the interests in certain non-voting 5% deferred shares in subsidiaries of the Company referred to in note 32 to the financial statements, none of the directors or chief executives, or their associates, had any interests in any securities or underlying shares of the Company or any of its associated corporations as defined in the SFO at 31st March 2005.



**DIRECTORS' REPORT** (CONTINUED)

**ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES**

Particulars and movements of the Company's share option scheme are set out in note 25 to the financial statements.

The fair value of the options granted in the current year measured as at the date of grant on 19th April 2004 was HK\$0.31 per option for the options granted with exercisable period of 5 years. The following significant assumptions were used to derive the fair value, using the Black-Scholes option pricing model:

1. an expected volatility of 50.72%;
2. the estimated expected lives of the options granted during the year are 5 years;
3. an annual risk free interest rate of 3.97%; and
4. a dividend yield of 0%.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to the lack of sufficient historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimated, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the consolidated income statement in respect of the value of options granted during the year.

Other than as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**DIRECTORS' REPORT** (CONTINUED)**CONNECTED TRANSACTIONS**

During the year ended 31st March 2005, the Group had the following transactions with the relevant connected parties:

<b>Name of connected parties</b>	<i>Notes</i>	<b>Nature of transactions</b>	<i>HK\$'000</i>
Boko Glass Art Company Limited	(1)	Rental expenses paid by the Group	880
Kayin Insurance Consultants Company	(2)	Gross insurance premium paid by the Group	<u>367</u>

*Notes:*

- (1) Mr. Kao Cheung Chong, Michael has an indirect beneficial interest in Boko Glass Art Company Limited.
- (2) Mr. Lam Pak Kin, Philip and his wife have direct and indirect beneficial interests respectively in Kayin Insurance Consultants Company.

**DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Other than as disclosed in note 31 to the financial statements, there were no contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at end of the year or at any time during the year.

**DIRECTORS' REPORT** (CONTINUED)

**SUBSTANTIAL SHAREHOLDERS**

As at 31st March 2005, to the best of the knowledge of the Directors, other than the interests disclosed above in respect of certain directors, the following shareholders were interested in 5 per cent or more of the issued share capital of the Company as recorded in the register of interests in shares and long positions in the issued share capital of the Company maintained by the Company pursuant to Section 336 of the SFO:

**Ordinary shares of HK\$0.50 each of the Company**

<b>Name of shareholder</b>	<b>Capacity shares</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
CITIC Group	Interest of controlled corporation	12,750,000	5.45% (note)
CITIC International Financial Holdings Limited	Interest of controlled corporation	12,750,000	5.45% (note)
CITIC Pacific Limited	Interest of controlled corporation	12,750,000	5.45% (note)
Golden Gateway Enterprises Inc.	Interest of controlled corporation	12,750,000	5.45% (note)
Forever Glory Holdings Limited	Interest of controlled corporation	12,750,000	5.45% (note)
CITIC Capital Markets Holdings Limited	Interest of controlled corporation	12,750,000	5.45% (note)
CITIC Capital Investment Holdings Limited	Beneficial owner	12,750,000	5.45% (note)

*Note:* All of these shares are held by CITIC Capital Investment Holdings Limited, whose entire issued capital is held by CITIC Capital Markets Holdings Limited, whose issued capital is in turn 50% owned by Forever Glory Holdings Limited (a wholly owned subsidiary of Golden Gateway Enterprises Inc., whose entire issued share capital is held by CITIC Pacific Limited) and 50% owned by CITIC International Financial Holdings Limited (a wholly owned subsidiary of CITIC Group) respectively.

**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.

**CHARITABLE DONATIONS**

During the year, the Group made charitable donations of approximately HK\$1,006,000.

**DIRECTORS' REPORT** (CONTINUED)**MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31st March 2005, sales attributable to the largest and the five largest customers accounted for 74.3% (2004: 58.5%) and 100% (2004: 100%) of the total turnover respectively. The only raw materials required by the Group's operations is digital audio tapes supplied by a few suppliers, purchase attributable to the largest and the five largest suppliers accounted for less than 1% (2004: less than 1%) of the total cost of the year.

Other than as disclosed in note 31 to the financial statements, none of the Directors, their respective associates (as defined in the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")), or any shareholder of the Company (who or which, to the knowledge of the Directors, own more than 5 per cent of the issued share capital of the Company) has any interest in any of the Group's five largest customers and suppliers.

**EMOLUMENT POLICY**

Remuneration policy is reviewed regularly to ensure that compensation and benefit packages are in line with the market in respective countries where the Group has operations. In addition to basic salary, incentives in the form of bonuses and share options may also be offered to eligible employees on the basis of individual performance and at the discretion of the Board. Details of the current share option scheme adopted by the Company is set out in note 25 to the financial statements.

The Board is proposed to establish a Remuneration Committee with effect from 1st August 2005. The function of the Remuneration Committee is to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration of executive directors and senior management.

**AUDIT COMMITTEE**

The Audit Committee meets regularly with the Group's senior management and the external auditors to consider and review the Group's financial statements (including the financial statements for the year ended 31st March 2005), the nature and scope of audit reviews, and the effectiveness of the system of internal control and compliance and to make recommendations to the Board. The members of the Audit Committee are Mr. Oh Kok Chi (Chairman of the Committee), Mr. Lai Chi Kin, Lawrence and Mr. Ng See Yuen.



**DIRECTORS' REPORT** (CONTINUED)

**CORPORATE GOVERNANCE**

Throughout the year, none of the Company's Directors are aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the period covered by this financial statements, in compliance with the Code of Best Practice as set out in Appendix 14 (in force prior to 1st January 2005) to the Listing Rules, save and except that all non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

The Code of Best Practice set out in Appendix 14 to the Listing Rules was replaced by the "Code of Corporate Governance Report" (the "New Code") as set out in Appendices 14 and 23 to the Listing Rules effective from 1st January 2005. The Company's compliance of the New Code will take place in the year ending 31st March 2006.

Pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, the Company has made specific enquiries of all directors, and all directors confirmed that they have achieved full compliance with the required standards as set out in the Model Code throughout the year ended 31st March 2005.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive directors are independent.

**SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31st March 2005.

**AUDITORS**

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Kao Wai Ho, Francis**

*Deputy Chairman and Chief Executive Officer*

Hong Kong, 15th July 2005