

# DIRECTORS' REPORT

The directors present their audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended September 30, 2000.

## Principal activities

The Company acts as an investment holding company. The Group is principally engaged in the manufacture, sales and distribution of electronic products.

The activities of its principal subsidiaries and an associate are set out in notes 16 and 17 respectively to the financial statements.

The Group's turnover and loss from operations for the year ended September 30, 2000 are derived from the sale of electronic products.

An analysis of the Group's turnover and loss from operations by geographical location is as follows:—

	<b>Turnover</b> <i>HK\$'000</i>	<b>Loss from operations</b> <i>HK\$'000</i>
Hong Kong	29,258	(17,247)
Other regions of The People's Republic of China (the “PRC”)	<u>7,464</u>	<u>(47,491)</u>
	<u><u>36,722</u></u>	<u><u>(64,738)</u></u>

## Subsidiaries and an associate

Details of the Company's principal subsidiaries and an associate at September 30, 2000 are set out in notes 16 and 17 respectively to the financial statements.

## Results

The results of the Group for the year ended September 30, 2000 are set out in the consolidated income statement on page 25.

## **Reserves**

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

## **Major suppliers and customers**

The largest customer of the Group by itself and taken together with the next four largest customers accounted for 68% and 92% respectively of the Group's total turnover for the year.

Aggregate purchases attributable to the Group's largest supplier by itself and taken together with the next four largest suppliers accounted for 40% and 80% respectively of the Group's total purchases for the year.

At no time during the year did a director, an associate of a director, or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers and suppliers.

## **Financial summary**

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

## **Property, plant and equipment**

During the year, the Group acquired property, plant and equipment of approximately HK\$32 million and disposed of property, plant and equipment with net book value of approximately HK\$36 million. Details of these and other movements during the year in property, plant and equipment of the Group are set out in note 15 to the financial statements.

## **Share capital**

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

## **Purchase, sale and redemption of the Company's listed securities**

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

## **Directors**

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

### **Executive directors:**

Shum Siu Hung, Chairman	(appointed on January 31, 2000)
Shum Siu Mau, Vice Chairman	
Zhao Xinghuan, Managing Director	
Cheung Ching Yu	
Philip Ng Wai Wing	(appointed on January 25, 2000 and retired on March 23, 2000)
Cen Ziniu	(appointed on January 25, 2000)
Wu Hong Cho	(appointed as alternate director to Cheung Ching Yu on January 25, 2000 and appointed as director on January 31, 2000)
Ko Kai Hing, Former Chairman	(resigned on January 31, 2000)
Ko Hing Hung	(resigned on January 24, 2000)
Luk Yan	(resigned on January 24, 2000)

### **Independent non-executive directors:**

Chan Bo Ching	
Charles Chan Wai Dune	(appointed on January 25, 2000)
Larry Ng Siu Yu	(resigned on January 24, 2000)

In accordance with clauses 86 and 87 of the Company's Bye-laws, Cheung Ching Yu and Chan Bo Ching shall retire at the forthcoming annual general meeting of the Company. Chan Bo Ching, being eligible, offers himself for re-election as director. Cheung Ching Yu does not offer himself for re-election as director.

Ko Kai Hing has a service contract as set out below.

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

No director being 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' service contracts**

There existed during the year a service agreement (the "Service Agreement") between Ko Kai Hing and the Company and Sound Ocean Investment Limited ("Sound Ocean") for a term of two years commencing from the date on which the Company's shares commenced trading on the Stock Exchange of Hong Kong Limited ("Commencement Date").

Ko Kai Hing shall be entitled to require Sound Ocean, a controlling shareholder of the Company, to transfer to him 120 million shares of the Company at a nominal consideration of HK\$1 provided that the Service Agreement shall have not been terminated if and when the consolidated net profit after tax but before exceptional and extraordinary items of the Group (so far as it is attributable to the design, manufacture, marketing and distribution of consumer audio and video products) is not less than HK\$20 million for the first 12-month period from the Commencement Date or after Ko Kai Hing has made up the shortfall if such profit is less than HK\$20 million.

Ko Kai Hing also gives a non-competition undertaking to the Group.

The Service Agreement was terminated during the year following the resignation of Ko Kai Hing as director of the Company.

## Directors' interests in shares and rights to acquire shares

### (i) Shares

At September 30, 2000, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name	Number of shares	
	Corporate interests	Other interests
Shum Siu Mau	970,000,000 (Note 1)	—
Shum Siu Hung	—	232,800,000 (Note 1)
Wu Hong Cho	—	48,500,000 (Note 1)
Cen Ziniu	—	9,700,000 (Note 1)

#### Notes:

1. These shares refer to the 970,000,000 shares of the Company held by Sound Ocean. Sound Ocean is owned as to 70% by Shum Siu Mau, 24% by Shum Siu Hung, 5% by Wu Hong Cho and 1% by Cen Ziniu.
2. No shares were held by the directors as their personal or family interests.

**(ii) Options**

The directors had personal interests in share options to subscribe for shares in the Company pursuant to the Company's share option scheme as detailed in note 25 to the financial statements as follows:

Name of director	Exercisable period	Exercise price per share HK\$	Number of share options granted during the year and at 30.9.2000
Shum Siu Hung	4.9.2000 to 2.9.2005	0.18	35,000,000
Shum Siu Mau	4.9.2000 to 2.9.2005	0.18	35,000,000
Zhao Xinghuan	4.9.2000 to 2.9.2005	0.18	30,000,000
	21.12.2000 to 20.12.2005	0.112	5,000,000
Cen Ziniu	4.9.2000 to 2.9.2005	0.18	30,000,000
Wu Hong Cho	4.9.2000 to 2.9.2005	0.18	15,000,000
Cheung Ching Yu	4.9.2000 to 2.9.2005	0.18	2,000,000
Chan Bo Ching	4.9.2000 to 2.9.2005	0.18	500,000
Charles Chan Wai Dune	4.9.2000 to 2.9.2005	0.18	500,000

No options have been exercised by the directors of the Company during the year.

Save as disclosed above and other than certain nominee shares in certain subsidiaries held by certain directors in trust for the Group, neither the directors nor the chief executives nor any of their respective associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the directors nor the chief executives nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## Arrangements to purchase shares or debentures

Other than the share option scheme of the Company as disclosed in note 25 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Directors' interests in contracts of significance and connected transactions

During the year, the Group entered into certain significant transactions with the following parties as follows:

Contracting party	Nature of transactions	Amount HK\$'000
Hunsworth Industrial Limited ("Hunsworth")	Rental expenses paid to <i>notes (i) &amp; (v)</i>	1,200
Guangdong Huabao Electric Appliance Co., Limited ("Huabao")	Rental expenses paid to <i>notes (ii) &amp; (vi)</i>	840
Shenzhen City Kang Jia Le Enterprise Limited ("Kang Jia Le")	Reimbursement of operating expenses paid on the Group's behalf <i>note (iii)</i>	2,184
	Reimbursement of income received on the Group's behalf <i>note (iii)</i>	477
	Sales of goods on the Group's behalf <i>note (iii)</i>	3,910
Sound Ocean	Reimbursement of legal and professional fees from <i>note (iv)</i>	1,606

*Notes:*

- (i) Shum Siu Hung and his spouse are directors of Hunsworth. Shum Siu Hung has a beneficial interest in Hunsworth.
- (ii) Shum Siu Hung is a director of Huabao.
- (iii) Cen Ziniu has a beneficial interest in Kang Jia Le.
- (iv) Shum Siu Hung, Shum Siu Mau and Wu Hong Cho are directors of and have beneficial interests in Sound Ocean. Cen Ziniu has a beneficial interest in Sound Ocean. Cheung Ching Yu and Zhao Xinghuan are directors of Sound Ocean.
- (v) On March 1, 2000, Sound Management Services Limited, a wholly owned subsidiary of the Company, entered into an office tenancy agreement with Hunsworth for the use of office premises provided by Hunsworth located on the 8th Floor, Suite A, First Pacific Bank Centre, 56 Gloucester Road, Wanchai, Hong Kong at HK\$100,000 per calendar month for a period of one year commencing from March 1, 2000.
- (vi) On March 1, 2000, Shunde Sound Electronic Company Limited, a wholly owned subsidiary of the Company registered in the PRC, entered into a factory tenancy agreement with Huabao for the use of factory premises provided by Huabao located on the 1st Floor and 5th Floor, Huabao Industrial Complex, Gongye Lu, Shun Feng Shan, Shunde, the PRC, having a total gross floor area of approximately 18,600 square metres at HK\$120,000 per calendar month for a period of two years commencing from March 1, 2000.

In the opinion of the directors, the above transactions were carried out in the usual course of business and on normal commercial terms.

Other than the foregoing, no contracts of significance, to which the 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 the end of the year or at any time during the year.



### **Substantial shareholders**

Other than the interests disclosed above under the heading “Directors’ interests in shares and rights to acquire shares”, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at September 30, 2000.

### **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.

### **Corporate Governance**

The Company has complied throughout the year ended September 30, 2000 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **Post balance sheet events**

Details of significant post balance sheet events are set out in note 37 to the financial statements.

### **Auditors**

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

On behalf of the Board

**Shum Siu Hung**

*Chairman*

Hong Kong, January 18, 2001