

## Report of the Directors

The Directors of the Company present their annual report and the audited financial statements for the year ended 31st December, 2005.

### REORGANISATION AND LISTING ON THE STOCK EXCHANGE

The Company was incorporated and registered in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 26th January, 2005. Pursuant to the corporate reorganisation ("Reorganisation") to rationalise the structure of the Group in preparation for the public listing (the "Listing") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 11th May, 2005. The shares of the Company were listed on the Stock Exchange on 14th July, 2005.

Details of the Reorganisation are set out in the Prospectus and note 1 to the financial statements.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is an investment holding. Particulars of the Company's principal subsidiaries are set out in note 38 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 28.

A subsidiary of the Group declared dividends of approximately to HK\$25,000,000 to its then shareholders before the Reorganisation which was completed on 11th May, 2005.

The Directors have recommended the payment of a final dividend of HK cents 2.8 per share to the shareholders on the register of members on 22nd May, 2006, amounting to HK\$8,495,000.

The payment of dividends is subject to the approval of the shareholders at the annual general meeting of the Company to be held on 25th May, 2006 (the "Annual General Meeting").

### RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 31.

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### PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year and details of the Group's property, plant and equipment are set out in note 14 to the accompanying financial statements.

### SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the financial statements. During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

### DIRECTORS

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

#### Executive Directors

Mr. Cheung Wah Keung	(appointed on 11th May, 2005)
Mr. Ip Wai Cheong, Ernest	(appointed on 11th May, 2005)
Mr. Wang Dong	(appointed on 11th May, 2005)
Mr. Feng Tian	(appointed on 11th May, 2005 and resigned on 6th March, 2006)

#### Independent Non-Executive Directors

Mr. Lai Ming, Joseph	(appointed on 25th June, 2005)
Dr. Lam King Sun, Frankie	(appointed on 25th June, 2005)
Mr. Goh Gen Cheung	(appointed on 25th June, 2005)

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Ip Wai Cheong, Ernest and Mr. Wang Dong will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Each of the Directors has entered into a service contract with the Company commencing from the date of employment for a term of three years. Executive Directors may be terminated by not less than three months' prior notice in writing served by either party on the other.

## Report of the Directors

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2005, the interests of the directors and chief executives in the shares of the Company, underlying shares in respect of equity derivatives and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

#### (1) Long positions in the shares and underlying shares of the Company

Name of Director	Nature of interest and capacity	Total number of ordinary shares	Total number of underlying shares	Approximate percentage of interest
Cheung Wah Keung	Interest in a controlled corporation ( <i>Note 1</i> )	152,655,473		50.89%
	Beneficial owner	300,000		0.10%
Ip Wai Cheong, Ernest	Beneficial owner	1,900,802		0.63%
	Beneficial owner ( <i>Note 2</i> )		3,397,500	1.13%

*Notes:*

1. 152,655,473 Shares were held by Pro Partner Developments Limited, which is wholly owned by Mr. Cheung Wah Keung.
2. Mr. Ip Wai Cheong, Ernest was granted an option to subscribe for 3,397,500 shares of the Company, details of which are stated in the "Share Option Scheme" section below.

All the interests stated above represented long positions. As at 31st December, 2005, the directors and chief executive had no short positions recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### SHARE OPTION SCHEME

As at 25th June, 2005, the share option scheme (the “Share Option Scheme”) was approved and adopted by the shareholders of the Company, under which, the options the Company may grant to any eligible participants (including any executive directors of the Company) to subscribe for shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme.

As at 31st December, 2005, no options have been granted under the Share Option Scheme.

As at 11th May, 2005, an option to subscribe for 3,397,500 shares in the Company at an exercise price equals to par value of HK\$0.01 per share was granted to a Director of the Company as the pre-IPO Share Option as follows:

	Date of grant	Number of share options				Outstanding		Subscription price per share
		Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	as at 31st December, 2005	Option period	
<b>Director</b>								
Mr. Ip Wai Cheong, Ernest	11/5/2005	3,397,500	–	–	–	3,397,500	14/1/2006 31/12/2007	HK\$0.01

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the section “Share Option Scheme” above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors 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’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the section “Connected Transactions” below, no contracts of significance to which the Company, its holding company, subsidiaries or fellow 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.

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### CONNECTED TRANSACTIONS

#### Non-exempt continuing connected transactions

Pursuant to the supply agreement dated 25th June, 2005 between Crown Million Industries (International) Limited ("CMI"), and Dongguan Guanman Acoustic Company Limited. ("DGAC"), a connected person of the Company by virtue of being ultimately controlled by Mr. Ip Wai Cheong, Ernest, an Executive Director of the Company, DGAC had agreed to supply CMI with speakers for automobile and plasma television for a term of two years commencing on 1st January, 2005 until 31st December, 2006 in accordance with the terms of the sale and purchase contracts to be entered into between the parties from time to time during the term of the agreement. The continuing connected transaction contemplated under this supply agreement is subject to reporting, announcement and independent shareholders' approval requirements, but waiver from strict compliance therewith (except the reporting requirement) has been obtained from the Stock Exchange. For the year ended 31st December, 2005, the total sales by DGAC to CMI amounted to HK\$87,483,000, which did not exceed the annual cap of HK\$90,000,000 prescribed for the year ended 31st December, 2005 as disclosed in the Prospectus.

The Independent Non-Executive Directors of the Company have reviewed the continuing connected transactions and confirm that these transactions have been entered into:

- a) in the ordinary and usual course of business of the Group;
- b) on normal commercial terms that are fair and reasonable; and
- c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

For further details regarding the above continuing connected transactions, please refer to note 36 to the financial statements.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, as far as known to the Directors, the following persons (other than the directors or chief executives of the Company) who had 5% or more interests in the shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

### Long positions in the shares of the Company

Name of shareholder	Nature of interest and capacity	Total number of shares held	Approximate percentage of interest
Pro Partner Developments Limited	Beneficial owner	152,655,473	50.89%
Lucky Merit Holdings Limited ( <i>Note 1</i> )	Beneficial owner	16,500,000	5.50%
New World Development Company Limited ( <i>Note 1</i> )	Corporate	16,500,000	5.50%
S. I. Technology Venture Capital Limited ( <i>Note 2</i> )	Beneficial owner	16,500,000	5.50%
Shanghai Industrial Investment (Holdings) Company Limited ( <i>Note 2</i> )	Corporate	16,500,000	5.50%
Cheung Lup Ying	Beneficial owner	15,207,936	5.07%

#### Notes:

1. Lucky Merit Holdings Limited, which directly holds 16,500,000 shares in the Company, is an indirect wholly-owned subsidiary of New World Development Company Limited ("NWDCL"), shares of which are listed on the Main Board. Therefore, NWDCL is deemed to be interested in those 16,500,000 shares.
2. S. I. Technology Venture Capital Limited, which directly holds 16,500,000 shares in the Company, is a wholly-owned subsidiary of Shanghai Industrial Holdings Limited ("SIHL"), shares of which are listed on the Main Board. Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") indirectly controls more than one-third of the voting power of SIHL, therefore SIIC is deemed to be interested in those 16,500,000 shares.

All the interests stated above represented long positions. As at 31st December, 2005, the substantial shareholders of the Company had no short positions recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### REMUNERATION POLICY

The remuneration policy of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees, details of the Scheme is set out under the section headed "Share Option Scheme" above.

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### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES**

There was no purchase, sale or redemption of shares of the Company by the Company or any of its subsidiaries during the year.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Articles although there are no restrictions against such rights under the laws in the Cayman Islands.

### **EMPLOYEES**

As at 31st December, 2005, the Group had a total of about 4,300 employees in Hong Kong and the PRC. Employees' cost (excluding directors' emoluments) amounted to approximately HK\$65,942,000 (2004: HK\$46,249,000). The Group ensures that the pay levels of its employees are competitive according to market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31st December, 2005, the five largest customers accounted for approximately 97.5% of the Group's total turnover and turnover attributable to the Group's largest customer accounted for approximately 64.5% of the Group's total turnover.

For the year ended 31st December, 2005, the five largest suppliers accounted for approximately 20.5% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 5.1% of the Group's total purchases.

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

### **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float at the latest practicable date prior to issue of annual report.

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### DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

The table below sets out the details, as required by Rule 13.15 of the Listing Rules, of advances to entities by the Group as at 31st December, 2005, which continued to exist and were discloseable pursuant to Rule 13.13 of the Listing Rules:

Name of entity (and affiliated companies)	Name of advances giving rise to the disclosure obligation	Aggregate amount due to the Group as at 31st December, 2005	Terms of advances
		HK\$	
Logitech Inc. Logicoool Co., Ltd. Logitech De Mexico, S.A. DE C.V. Logitech Europe S.A. Logitech Far East Ltd. Logitech Hong Kong Ltd. Logitech Ireland Services Ltd.	Trade receivables arising from sales of headsets and multimedia speaker systems	234,745,000	Unsecured, interest free and with payment terms of approximately 60 days
Altec Lansing (Hong Kong) Ltd. Altec Lansing Technologies Inc.	Trade receivables arising from sales of speakers system for PCs, compressed audio players and other multimedia devices	33,018,000	Unsecured, interest free and with payment terms of approximately 30 to 75 days
Philips Electronics Hong Kong Ltd. Philips Innovative Applications N.V.	Trade receivables arising from sales of speakers and other components of acoustic products	26,840,000	Unsecured, interest free and with payment terms of approximately 30 to 45 days

### 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

**Cheung Wah Keung**

*Chairman*

21st April, 2006