

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 13 to the financial statements. Except for the Group's move into the provision of portal services, there were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activity and geographical area of operations for the year ended 31 December 2000 is as follows:

	2000		1999	
	Turnover	Profit/ (loss) from operating activities	Turnover	Profit/ (loss) from operating activities
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
By activity:				
Manufacture and trading of electronic components and trading of electrical products	304,332	8,148	229,832	6,590
Trading of raw materials	30,463	(6,827)	44,664	1,571
Trading of production machinery	3,856	276	11,537	336
Provision of portal services	87	(14,378)	—	—
	<u>338,738</u>	<u>(12,781)</u>	<u>286,033</u>	<u>8,497</u>
Finance costs		(7,883)		(6,971)
		<u>(20,664)</u>		<u>1,526</u>
By geographical area:				
The People's Republic of China:				
Hong Kong, SAR	62,423	(8,495)	197,531	6,174
Elsewhere	231,442	(2,670)	82,252	2,027
	<u>293,865</u>	<u>(11,165)</u>	<u>279,783</u>	<u>8,201</u>
Other countries	44,873	(1,616)	6,250	296
	<u>338,738</u>	<u>(12,781)</u>	<u>286,033</u>	<u>8,497</u>
Finance costs		(7,883)		(6,971)
		<u>(20,664)</u>		<u>1,526</u>

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 55.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, is set out on page 56 of the annual report. This summary is not part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 11 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 13 to the financial statements.

JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Group's interests in jointly controlled entities and associates are set out in notes 14 and 15 to the financial statements, respectively.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of the Group's borrowings are set out in notes 21 and 22 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

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

Total net proceeds of approximately HK\$48 million have been used for the improvement of the Group's production facilities, the expansion of the sales network, the exploration of high technology related activities and to reduce the Group's bank borrowings.

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PRE-EMPTIVE RIGHTS

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2000, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$57,395,000. In addition, the Company's share premium account, in the amount of HK\$72,641,000, may be distributed in the form of fully paid bonus shares.

DONATIONS

During the year, the Group made donations totalling HK\$200,000.

DIRECTORS

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

Executive directors

Chan Ho Sing
Hui Sing Cheung, Dave

Independent non-executive directors

Li Sau Hung, Eddy
Lo Kwok Kwei, David

In accordance with clause 87(1) of the Company's bye-laws, Li Sau Hung, Eddy will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Chan Ho Sing entered into a service contract with the Company for a term of three years commencing from 1 January 2000. Hui Sing Cheung, Dave entered into a service contract with the Company for a term of three years commencing from 25 November 1999. The above contracts are subject to termination by either party giving not less than six months' notice, such notice expiring on or at any time after the expiry of the initial term of three years.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, as detailed in note 24 to the financial statements, the Company granted share options in favour of the following directors to subscribe for ordinary shares in the Company's share capital:

Name of director	Note	Number of share options at 31 December 1999	Number of share options granted during the year	Number of share options outstanding at 31 December 2000	Exercise period of share options	Exercise price of share options HK\$
Chan Ho Sing	1	11,000,000	—	11,000,000	13 February 1997 to 12 February 2007	0.7856
		—	12,000,000	12,000,000	5 June 2000 to 12 February 2007	0.432
				23,000,000		
Hui Sing Cheung, Dave		—	2,000,000	2,000,000	21 January 2000 to 12 February 2007	0.3192

Note 1: The interests disclosed under Chan Ho Sing included 5,500,000 share options held by Kee Chor Lin, the spouse of Chan Ho Sing.

Save 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 Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of securities of the Company or any other body corporate.

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DIRECTORS' INTERESTS IN SHARES

At 31 December 2000, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

The Company

Name of director		Number of shares and nature of interest		
		Nature of interest	Number of shares held	Number of share options
Chan Ho Sing	<i>Note 1</i>	Family	179,012,000	—
Chan Ho Sing	<i>Note 2</i>	Family	—	5,500,000
Chan Ho Sing		Personal	—	17,500,000
Hui Sing Cheung, Dave		Personal	300,000	2,000,000

Note 1: These shares are owned by Man Yue Holdings Inc., a company incorporated in the Bahamas, the entire issued share capital of which is ultimately beneficially owned by the family trust of Chan Ho Sing.

Note 2: The family interests represent share options held by Kee Chor Lin, the spouse of Chan Ho Sing.

In addition to the above, Chan Ho Sing has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above and as disclosed under the heading "Directors' rights to acquire shares", none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance, as at 31 December 2000.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares held	Interest %
Man Yue Holdings Inc.	179,012,000	48
Chan Ho Sing	179,012,000	48
Li Tung Lok	47,760,000	13

Note: Man Yue Holdings Inc. is ultimately beneficially owned by the family trust of Chan Ho Sing. The interests disclosed under Chan Ho Sing represent his deemed interests in the shares of the Company by virtue of his interests in Man Yue Holdings Inc. and have been disclosed under the heading "Directors' interests in shares" above.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 26% of the total sales for the year and sales to the largest customer included therein amounted to approximately 8%.

Purchases from the Group's five largest suppliers accounted for approximately 31% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 7%.

During the year, 7% of the total purchases of the Company were from Wuxi Heli Electronic Co., Ltd., which is a jointly controlled entity of the Group.

Except as disclosed above, as far as the directors are aware, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group are set out in note 29 to the financial statements.

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PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 24 to the financial statements. Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

AUDIT COMMITTEE

To comply with the revised 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 (the "Listing Rules"), on 23 June 1999, the Company set up an Audit Committee (the "Committee") with written terms of reference for the purpose of reviewing and supervising the financial reporting process and internal controls of the Group. The Committee comprises two independent non-executive directors. The Committee conducted a meeting on 24 April 2001 to review the financial reporting procedures and internal controls of the Group. The Committee had provided valuable suggestions on the above matters to the Company.

COMPLIANCE WITH THE 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 of The Stock Exchange of Hong Kong Limited, throughout the accounting year ended 31 December 2000, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the Company's bye-laws.

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

Chan Ho Sing
Chairman

Hong Kong
26 April 2001