



## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am please to present to our shareholders the 2001 Annual Report of Kessel International Holdings Limited (the "Company") together with its subsidiary companies (together the "Group")

### RESULTS

For the year ended March 31, 2001 the Group recorded a consolidated turnover of HK\$987,326,000 and a net loss for the year of HK\$ 137,958,000.

### DIVIDENDS

The Director do not recommend the payment of a final dividend for the year ended March 31, 2001 (2000: 2.30 cents)

### BUSINESS REVIEW

For the year under review, the Group recorded a consolidated turnover of HK\$987 million representing an increase of 8.73% from the previous year, and a net loss of HK\$137.9 million. The net loss was attributed to the increase in material costs from global electronic component and material shortage, substantial increase of inventory provision, increase in depreciation incurred by new factory and machinery purchased for two new product lines, increase staff costs and overheads for local and overseas sales networks expansion.

#### Electronic Organiser

Agenda VR is the new Personal Digital Assistant ("PDA") product line of which self developed by the Group and marketed by its own brand name. The Agenda PDA is the first commercial version in the world which running on Linux operating system, developer edition and commercial edition have been launched by the Group in August, 2000 and May, 2001 respectively in USA, Germany, Japan and Hong Kong. The acceptability of the product by the market is still under testing. The Group also intended to release a new re-chargeable version, Agenda VR3r, in the near future. The management believes this product will provide contribution to the Group once users have accepted the features of the product.

For the traditional Electronic Organiser products line, there was a decrease of 18% in turnover when compared with last year. The overall Electronic Organiser products line contributed a loss of HK\$54 million to the Group.

#### LCD Products

Sales of Group's LCD modules, mainly for mobile phone display unit, is still benefit from the booming of the mobile phone market. In May, 2000, the Group purchased a Chip on Glass machinery to improve the flexibility of the product in order to face the changing market requirements.

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**BUSINESS REVIEW** *(continued)***LCD Products** *(continued)*

LCD panel, material productions of this financial year were for the Group internal usage such as LCD modules, telecom products and PDA products. The Group had familiarized the operation of this production line. From the fourth quarter onward the Group had started to market its LCD modules and panel under its own brand name. The management hoped that it would improve its contribution to the overall performance of the Group.

The turnover of LCD modules and LCD panels recorded a 16% decrease in turnover and it contributed a HK\$38 million loss to the Group. The loss was mainly the result of increase in depreciation of the production facilities, increase in raw material costs and factory overheads during the year.

**Telecommunications Products**

Telecommunications Products is the new product line of the Group. This year is the first full sales recorded in the Group's results. It contributed a total of HK\$253.7 million to the total turnover of the Group. However, due to the global shortage of components, fluctuation in Euro currency and written off of certain development costs, it incurred a loss of HK\$40 million to the Group overall performance.

**PROSPECTS**

In May, 2001, due to heavily invested in two new products lines, namely LCD and telecommunications products, the Group encountered a cash flow crisis. In order to stabilize the Group's financial situation, the Group had taken steps in retaining professional financial advisors to negotiate with bankers for an informal standstill, seeking potential investors for new funding and also retained legal advisor for debts restructuring. At the same time, the management had carried out plans to trim down office overheads, factory costs as well as steam-line the overall operations of the Group. In view of current down turn of global economy, shortage of the Group's cash flow, severely constrain of the Group's business is foreseeable. The management will take every possible step to stabilize and improve the financial situation of the Group and turnaround the business.

**APPRECIATION**

On behalf of the Board, I would like to extend my sincere thanks and appreciation to all our staff for their hard work and commitment and to our bankers, customers, suppliers and shareholders for their continued support.

**Shun Wing Chiu**  
CHAIRMAN

Hong Kong, August 17, 2001