

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended March 31, 2001.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended March 31, 2001, the five largest customers of the Group together accounted for approximately 74 per cent. of the Group's total turnover, with the largest customer accounting for 26 per cent.. The five largest suppliers of the Group together accounted for approximately 39 per cent. by value of the Group's total purchases during the year, with the largest supplier accounting for 17 per cent..

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors own more than 5 per cent. of the Company's issued share capital) had any interest in the five largest suppliers or customers mentioned in the preceding paragraph.

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SUBSIDIARIES

Details of the Company's subsidiaries at March 31, 2001 are set out in note 16 to the financial statements.

RESULTS

The results of the Group for the year ended March 31, 2001 are set out in the consolidated income statement on page 23.

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

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 32 to the financial statements.

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RESERVES *(continued)*

Under The Companies Act 1981 of Bermuda (as amended), in addition to the accumulated profits, contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at March 31, 2001 comprise the accumulated losses and contributed surplus totalling HK\$33,476,000.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 66.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired plant and machinery at a cost of approximately HK\$90 million to expand its production capacity.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 30 to the financial statements. There were no movements in the Company's share capital during the year.

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DIRECTORS

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

Executive directors

Mr. Shun Wing Chiu (*Chairman*)

Ms. Chan Yuk Lin

Mr. Lam Chi Kong

Mr. Hui Kam Luen, Terence

Mr. Lam Shing (appointed on November 27, 2000)

Mr. Siu Kwok Leung (resigned on September 11, 2000)

Independent non-executive directors

Ms. Lo Miu Sheung, Betty

Ms. Chan Chung Yee, Louise

In accordance with Clause 86 of the Company's Bye-laws, Mr. Lam Shing shall hold office from the date of appointment as director of the Company to the next following annual general meeting of the Company and, being eligible, offers himself for re-election.

In accordance with Clause 87 of the Company's Bye-laws, Mr. Lam Chi Kong, shall retire by rotation and, being eligible, offers himself for re-election. The other directors continue in office.

Each of the executive directors, except for each of Ms. Chan Yuk Lin and Mr. Lam Shing, has entered into a service agreement with the Company for a period of two years commencing on September 1, 1997. These service contracts continue unless and until terminated by either the Company or the director giving to the other party not less than 3 months' notice in writing. Following the resignation of Mr. Siu Kwok Leung as a director of the Company, his service contract was terminated with effect from the date of his resignation as a director of the Company.

The term of office of each of the independent non-executive directors is the period up to his or her retirement by rotation as required by the Company's Bye-laws.

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DIRECTORS' INTERESTS IN SHARES

At March 31, 2001, the interests of the directors and their associates in the issued share capital of the Company as recorded in the register maintained by the Company under Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Type of interest	Number of shares held
Mr. Shun Wing Chiu	Other (<i>Note</i>)	211,200,000
Ms. Chan Yuk Lin	Other (<i>Note</i>)	211,200,000

Note: These shares are held by Stangee International Limited, a company incorporated in the British Virgin Islands with limited liability. The entire issued share capital of Stangee International Limited is held by the Trustee of The Stangee 1993 Trust, a discretionary trust in which Mr. Shun Wing Chiu and his spouse, Ms. Chan Yuk Lin, are included as beneficiaries.

Mr. Shun Wing Chiu and Ms. Chan Yuk Lin, each has a personal interest in 5,000 deferred shares in Kessel Electronics (H.K.) Limited, a subsidiary of the Company.

Mr. Shun Wing Chiu has a personal interest in 3,100 deferred shares in Kepo Time Limited, a subsidiary of the Company.

The rights and restrictions of such deferred shares are set out in note 16 to the financial statements.

Save as disclosed above and other than nominee shares in certain subsidiaries held in trust for the Company by certain directors, none of the directors or their associates had any interests in the issued shares of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of Mr. Shun Wing Chiu and Ms. Chan Yuk Lin, 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 per cent. or more in the issued share capital of the Company as at March 31, 2001.

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DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding company or any of its subsidiaries was a party 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the Company's share option scheme are set out in note 31 to the financial statements.

No options have been granted to any of the directors since the approval of the share option scheme.

Apart from the above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such right during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

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

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 41 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended March 31, 2001 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.

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.

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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

Shun Wing Chiu
CHAIRMAN

Hong Kong, August 17, 2001