

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars)

The directors are pleased to present their first annual report together with the audited financial statements of Datronix Holdings Limited (“the Company”) and its subsidiaries (together “the Group”) for the year ended 31st December, 2001.

CHANGE OF COMPANY NAME

By a special resolution passed on 15th January, 2001, the name of the Company was changed from Datatronic Holdings Limited to Datronix Holdings Limited on 16th January, 2001.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in Bermuda on 15th February, 2000 as an exempted company under the Companies Act 1981 of Bermuda (as amended). On 6th June, 2001, the Company became the holding company of other companies comprising the Group pursuant to a group reorganisation which included exchanges of shares. On 22nd June, 2001, the Company’s shares were listed on The Stock Exchange of Hong Kong Limited.

Details of the group reorganisation and basis of presentation of the financial statements are set out in Note 1 to the accompanying financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and trading of electronic components to customers in the United States of America, Europe and Southeast Asia (including Hong Kong).

An analysis of the Group’s turnover and contribution to profit from operations by geographical location for the year ended 31st December, 2001 is summarised in Note 22 to the accompanying financial statements.

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MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2001, the five largest customers accounted for approximately 46% of the Group's total turnover and the five largest suppliers accounted for approximately 28% of the Group's total purchases. The largest customer of the Group accounted for approximately 10% of the Group's turnover while the largest supplier accounted for approximately 10% of the Group's total purchases.

For the year ended 31st December, 2001, the largest customer of the Group was Datatronic Romoland, Inc., a company in which Mr. Paul Y. Siu, a director of the Company has a 96.5% interest. Except for the above, none of the directors, their associates or any shareholders (which, to the knowledge of the directors, owned more than 5% of the Company's share capital), had beneficial interests in the Group's five largest customers and five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st December, 2001 are set out in the consolidated income statement on page 21 of this annual report.

The directors recommend the payment of a final dividend of 3 cents per share, totalling \$9,600,000, in respect of the year ended 31st December, 2001.

RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 20 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement on page 21 of this annual report.

PROPERTY, MACHINERY AND EQUIPMENT

Movements in property, machinery and equipment during the year are set out in Note 11 to the accompanying financial statements.

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SUBSIDIARIES

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

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the share capital and share option scheme of the Company are set out in Notes 18 and 19 to the accompanying financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2001.

EMPLOYEE RETIREMENT BENEFITS

Details of the Group's employee retirement benefits are set out in Note 24 to the accompanying financial statements.

CONNECTED TRANSACTIONS

The related party transactions disclosed in Note 3 to the accompanying financial statements constituted connected transactions under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). Details of such connected transactions are as follows:

- a. Pursuant to a tenancy agreement ("the Tenancy Agreement") dated 20th March, 2000 between Datatronic Distribution, Inc. ("DDI"), a 98.8% owned subsidiary of the Company, and Datatronics Romoland, Inc. ("DRI"), a company which Mr. Paul Y. Siu, a director of the Company, has a 96.5% interest, DRI agreed to lease office and industrial premises located at 28151 Highway 74, Romoland, California, the United States of America to DDI for a term of three years from 1st January, 2000 to 31st December, 2002. The premises are used by DDI as its office and warehouse. The total annual rental is approximately \$460,000.

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The Tenancy Agreement was negotiated on an arm's length basis between DDI and DRI, and entered into in the ordinary course of business of the Group and on normal commercial terms, which the directors (including non-executive directors) consider fair and reasonable to the shareholders of the Company taken as a whole.

- b. Datatronic Limited ("DL"), a wholly owned subsidiary of the Company, and DRI entered into a Master Supply Agreement on 6th June, 2001 ("the Master Supply Agreement") in respect of supply of magnetics to DRI by DL.

The Master Supply Agreement is for an initial term of three years from 1st January, 2001 and shall continue thereafter until terminated by either party giving to the other party not less than three months' written notice. Pursuant to the Master Supply Agreement, the selling prices of the magnetics are to be agreed between DL and DRI. DL will determine the price of the magnetics required by DRI according to its pricing policy of obtaining a reasonable profit margin for its sales in accordance with the prevailing market conditions, on normal commercial terms and on an arm's length basis. DL has been granted a first refusal right by DRI to the effect that, unless DL declines the order, DRI undertakes not to source magnetics from any third-party supplier provided that the terms of purchase offered to the third-party supplier are not more favourable than those to DL. The total purchases made by DRI during the year ended 31st December, 2001 was approximately \$16,838,000.

The directors (including the independent non-executive directors) are of the view that the Master Supply Agreement has been entered into on normal commercial terms, in the ordinary course of business of the Group and is fair and reasonable to the shareholders of the Company taken as a whole.

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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report are:

Executive directors

Mr. Siu Paul Y. alias Siu Paul Yin Tong, *Chairman*

Ms. Shui Wai Mei, *Vice Chairman*

Mr. Sheung Shing Fai

Non-executive director

Ms. Siu Nina Margaret

Independent non-executive directors

Mr. Chung Pui Lam (Appointed on 17th March, 2001)

Mr. Li Kwok Sing (Resigned on 17th March, 2001)

Mr. Cheung Ting Kau, Vincent

In accordance with Bye-law 87 of the Company's Articles of Association, Mr. Sheung Shing Fai will retire from office and, being eligible, offer himself for re-election. All other remaining directors continue in office.

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 22nd June, 2001. Such contracts will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Save as aforesaid, none of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

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DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2001, the directors of the Company had the following beneficial interests in the shares of \$0.10 each in the capital of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

a. The Company

	Number of shares			Total
	Personal interest	Family interest	Corporate interest	
Mr. Paul Y. Siu	–	–	240,000,000 (Note 1)	240,000,000

b. Associated corporations

	Name of corporation	Number of shares		Total
		Personal interest	Corporate interest	
Mr. Paul Y. Siu	Datatronic Limited	1 non – voting deferred	199,999 non – voting deferred (Note 2)	200,000

Notes –

1. These shares are held by Onboard Technology Limited, a company incorporated in the British Virgin Islands, and in which Mr. Paul Y. Siu and Ms. Shui Wai Mei hold 90% and 10% of its issued share capital, respectively.
2. These shares are held by Data Express Limited, a company incorporated in the Republic of Liberia, whose entire issued share capital is owned by Mr. Paul Y. Siu.

Except as disclosed above, none of the directors or their associates had any interests in the securities of the Company or its associated corporations as defined in the SDI Ordinance as at 31st December, 2001.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries or holding company a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed above, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding company was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following entity had a beneficial interest of 10% or more in the issued share capital of the Company:

Name	Number of issued shares	Percentage holding
Onboard Technology Limited	240,000,000 (Note 1)	75%

Note:

1. Onboard Technology Limited, a company incorporated in the British Virgin Islands, is owned as to 90% by Mr. Paul Y. Siu and 10% by Ms. Shui Wai Mei, both are directors of the Company.

Except as disclosed above, the Company had no notice of any interests to be disclosed under Section 16(1) of the SDI Ordinance as at 31st December, 2001.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

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FINANCIAL SUMMARY

A summary of the consolidated income statements of the Group for each of the years ended 31st December, 1998 to 2001 and the consolidated balance sheets of the Group as at 31st December 1998, 1999, 2000 and 2001 are set out on page 56 of the annual report.

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank borrowings of the Company and the Group as at 31st December are set out in Note 25 to the financial statements.

USE OF PROCEEDS

The net proceeds from placing and public offer of approximately \$65 million had been applied in accordance with its original purpose as follows:

- Approximately \$1.1 million for strengthening the Group's research and development capability and development of new products
- Approximately \$0.7 million for acquisition of machinery and equipment for the facilities in the PRC and Hong Kong
- Approximately \$0.6 million for expanding the Group's sales and marketing operations

However, due to the present economic conditions, the construction project of the new factory premises and dormitory buildings in Shunde, the PRC will be postponed to the end of 2002 or early 2003. The directors believe that the existing production facilities and capacity is sufficient to meet orders in the near future as there is only 40% utilisation of the current capacity.

The balance which has not been utilized is deposited into licensed banks in Hong Kong.

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an audit committee comprising two independent non-executive directors of the Company. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

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CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (“the Code”) as set out in the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company’s Articles of Association.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company’s auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,

Paul Y. SIU

Chairman

Hong Kong, 25th April, 2002.