

CHAIRMAN'S LETTER

Completion of the Restructuring of the Group

I am pleased to present to our shareholders the interim report for the six months ended 30 September 2002 of A-Max Holdings Limited (formerly known as "Kessel International Holdings Limited") (the "Company") and its subsidiaries (collectively referred to as the "Group"). The restructuring of the Group (the "Group Restructuring") pursuant to the Restructuring Agreement (as defined in the composite document (the "Composite Document") of the Company dated 19 July 2002) was successfully completed on 21 August 2002. The name of the Company was changed from Kessel International Holdings Limited to A-Max Holdings Limited with effect from 4 September 2002.

Financial Results for the Period under Review and Information in this Report

On 21 August 2002, being the date of completion of the Group Restructuring, all then existing directors of the Company (the "Former Directors" as defined in note 1 to the condensed consolidated financial statements) resigned and the new directors of the Company (the "Current Directors", as defined in note 1 to the condensed consolidated financial statements) were appointed.

The Current Directors have taken all reasonable steps and used their best endeavours to prepare the financial results for the period under review as well as to disclose in this report relevant information of the Group as required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Statements of Standard Accounting Practice (the "SSAP") issued by the Hong Kong Society of Accountants. Due to the restructuring of the Company and changes in management, the extent of work of the Current Directors were limited to those company books and records passed to them by the Former Directors of the Company. Up to the date of this report, the Current Directors are not aware of any material adjustments that should be made to the financial statements.

Interim Dividend Scheme

The Current Directors recommended the payment of an interim cash dividend of HK\$0.001 per share for the six months ended 30 September 2002 (2001: Nil) with a scrip dividend alternative to the shareholders.

Business Review

The Group is now principally engaged in the manufacture, development and sales of liquid crystal display (the "LCD"), LCD modules (the "LCMs"), LCD panels and other electronic consumables at a 50,000 square metre world class plant in Dongguan, China. With the extensive experiences and efforts of our new management team, the Group has been able to generate a steady stream of revenue and cash flows. The Group's businesses have been revitalized and have strong prospects. We are pleased to see the prompt re-establishment of good business relationships with most of the major customers and suppliers. Full mass productions have resumed in September 2002.



CHAIRMAN'S LETTER *(Continued)*

Business Review *(Continued)*

The Current Directors have already implemented sufficient internal controls within the Group. The Group is now operating under a healthy environment with a significant reduction of its financial burden, with a total cash and bank balance of approximately HK\$30.5 million resulting from the issuance of convertible notes to Yue Fung International Group Holding Limited ("Yue Fung") and Simply Noble Limited ("Simply Noble") in August 2002. The funds raised is currently planned to provide working capital and for future developments of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's turnover for the period ended 30 September 2002 amounted to HK\$3,785,000 (2001: HK\$12,740,000; 2000: HK\$505,328,000), representing a decrease of 70% as compared with last period. The significant decrease of turnover from 2000 to 2001 was due to the change of accounting methods for the non-consolidation of certain companies not involved in the Group Restructuring. Following the completion of the Group Restructuring and resumption of mass production, the Group's turnover is expected to increase significantly in the near future. Profit attributable to shareholders amounted to HK\$333,149,000 (2001: loss of HK\$161,938,000). The turnaround was mainly attributable to the gain of HK\$180,734,000 and HK\$255,120,000 arising from the write back of indemnified liabilities and net amounts due to companies not involved in the Group Restructuring, respectively.

As at 30 September 2002, total assets and net assets of the Group were HK\$196,923,000 (31 March 2002: HK\$143,171,000) and HK\$106,870,000 (31 March 2002: net liabilities of HK\$255,718,000) respectively, representing an increase of HK\$53,752,000 and HK\$362,588,000 respectively as compared with 31 March 2002.

On the other hand, as at 30 September 2002, the Group's consolidated shareholders' equity was HK\$106,870,000, compared with the negative balance of HK\$255,718,000 as at 31 March 2002. In other words, the Group's financial position improved significantly after the completion of the Group Restructuring in August 2002.

The management believes that the existing financial resources are sufficient for its current expansion plan. If the Group requires additional funding to capture business opportunities that may arise in the future, the management believes that the Group will be able to obtain financing at favorable terms.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources

As at 30 September 2002, the Group's balances due to Simply Noble and Yue Fung and its subsidiaries amounted to approximately HK\$85 million, of which HK\$30 million is in the form of convertible notes due to Simply Noble and Yue Fung. The gearing ratio of the Group as at 30 September 2002, calculated as a ratio of total interest-bearing borrowings to total assets, was approximately 28%. Excluding the amounts due to Yue Fung and its subsidiaries, the net current assets as at 30 September 2002 was approximately HK\$27 million and current ratio was maintained at a healthy level of approximately 641%. The Group had no other borrowings except for the balances due to Yue Fung and its subsidiaries. Further, the Group's cash position was increased from approximately HK\$1.5 million as at 31 March 2002 to approximately HK\$30.5 million as at 30 September 2002 after the issuance of 5 years' convertible notes in August 2002. The Group's liquidity has returned to a healthy position.

Restructuring

On 4 April 2002, the Company and A-Max (Asia) Limited, a wholly owned subsidiary of Yue Fung, entered into the Restructuring Agreement that A-Max (Asia) Limited would (i) subscribe for 10,000,000,000 new shares of the Company of HK\$0.001 each at a subscription price of HK\$0.004 per share (the "Subscription"), representing approximately 97% of the enlarged issued share capital of the Company immediately after the Subscription, for an aggregate cash consideration of HK\$40,000,000 and (ii) reimburse the provisional liquidators of Keview Technology (BVI) Limited, a wholly-owned subsidiary of the Company, of HK\$3,750,000 (collectively referred to as "Acquisition").

On 4 April 2002, the Group entered into the loan agreement with A-Max (Asia) Limited, pursuant to which A-Max (Asia) Limited agreed to provide interest-bearing loan facilities up to HK\$35,000,000 to the Group for discharging its liabilities towards the PRC creditors. The Restructuring Agreement was completed on 21 August 2002 and the abovementioned consideration of the Acquisition amounted to HK\$43,750,000 was fully paid by A-Max (Asia) Limited accordingly.

On 22 August 2002, A-Max (Asia) Limited placed 2,290,000,000 issued shares to independent third parties to ensure that 25% of the issued share capital of the Company was held by the public in compliance with Rule 8.08 of the Listing Rules.

Convertible Notes

Upon the completion of the Restructuring Agreement on 21 August 2002, Yue Fung and Simply Noble agreed to subscribe for HK\$30,000,000 zero coupon 5-year convertible notes from the Company in equal proportion. The convertible notes are convertible into 7,500,000,000 new shares of the Company at a conversion price at HK\$0.004 per share from 21 August 2002 to 20 August 2007. The subscription of convertible notes was completed on 21 August 2002.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Investments

The Group had no significant investments held as at 30 September 2002.

Segment Information

During the period under review, turnover and profit from operating activities was amounted to approximately HK\$4 million and HK\$333 million, respectively. Information in respect of the Group's turnover and contribution by principal activity and geographical area of operations has been presented in note 5 to the condensed consolidated financial statements.

Employees and Remuneration Policy

As at 30 September 2002, the Group employed a total of approximately 200 employees. They were remunerated according to the nature of job and market condition. Other employee benefits available for eligible employees included period-end payment, staff canteen, mandatory provident fund, share option and medical insurance scheme.

Foreign Exchange and Currency Risks

Since most of the revenue generated from the sale of products and the payment for purchases of materials, components, equipment and salaries are either made in Hong Kong dollars, Renminbi, or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purposes is considered necessary and the exposure to exchange rate fluctuations is minimal.

Outstanding Litigation

As at 30 September 2002, the Company had one litigation in relation to goods alleged had been purchased by one of the subsidiaries of the Company amounting to HK\$474,000. For details, please refer to note 17 to condensed consolidated financial statements.

Future Prospects

Immediately following the completion of the Group Restructuring in August 2002, mass production has been able to resume in September 2002. The Group will continue to formulate long-term business plans and develop new business strategies. After a thorough review of the restructured Group, the Group intends to focus on the Group's core business of manufacturing and development of the most profitable LCD businesses and restructure those loss-making businesses. As a result, the Group is able to be profitable immediately after the Group Restructuring.

Looking ahead, the Group will continue to put more resources in developing the existing business and actively strengthen relationships with existing brandname customer, such as Samsung and other America and Europe brandname customers. In addition, the Group will vigorously seek quality partners to form strategic alliance to complement its LCD business.