

REPORT OF THE DIRECTORS

The directors present herewith their annual report and the audited financial statements of Datronix Holdings Limited (“the Company”) and its subsidiaries (together with the Company, “the Group”) for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group’s subsidiaries are set out in note 13 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	13%	
Five largest customers in aggregate	42%	
The largest supplier		9%
Five largest suppliers in aggregate		32%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company’s share capital) had any interest in these major customers and suppliers.

SEGMENT INFORMATION

Details of segment information are set out in note 4 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 18.

The state of affairs of the Group and the Company as at 31 December 2002 are set out in the consolidated balance sheet on page 19 and the balance sheet on page 20, respectively.

The directors recommend the payment of a final dividend of HK\$0.04 per share, totalling HK\$12,800,000 for the year ended 31 December 2002.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2002 and of the assets and liabilities as at 31 December 1998, 1999, 2000, 2001 and 2002 is set out on page 55.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 12 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2002 are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Movements in share capital of the Company during the year are set out in note 21 to the financial statements. There was no change in share capital during the year. During the year, the Company did not grant any share options. Details of the share option scheme of the Company are set out in 2001 annual report.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 21 to 22.

DIRECTORS

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

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

DIRECTORS (Continued)

Independent non-executive directors

Mr. Chung Pui Lam

Mr. Lam Tak Shing (appointed on 13 September 2002)

Mr. Cheung Ting Kau, Vincent (resigned on 8 August 2002)

In accordance with Bye-laws 86(2) and 87(1) of the Company's Articles of Association, Mr. Lam Tak Shing and Ms. Siu Nina Margaret will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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 contract 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 15, 16 and 24 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent enterprise was a party and 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

The directors of the Company who held office as at 31 December 2002 had the following interests in the issued share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register of directors' share interests:

(a) The Company

	Ordinary shares of HK\$0.1 each			Total
	Personal interests	Family interests	Corporate interests	
Mr. Siu Paul Y.	–	–	240,000,000 <i>(Note 1)</i>	240,000,000

(b) Associated corporation

	Name of corporation	Non-voting deferred shares of HK\$1 each			Total
		Personal interests	Family interests	Corporate interests	
Mr. Siu Paul Y.	Datatronic Limited	1	–	199,999 <i>(Note 2)</i>	200,000

Notes:

1. These shares are held by Onboard Technology Limited, a company incorporated in the British Virgin Islands, and in which Mr. Siu Paul Y. 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. Siu Paul Y..

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 31 December 2002.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2002, 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:

	Ordinary shares held	Percentage of total issued shares
Onboard Technology Limited (<i>Note 1</i>)	240,000,000	75%

Note:

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year.

CONNECTED TRANSACTIONS

The related party transactions disclosed in note 24 to the 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").

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

Datatronic Limited (“DL”), a wholly owned subsidiary of the Company, and Datatronics Romoland, Inc. (“DRI”) entered into a Master Supply Agreement on 6 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 1 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 31 December 2002 was approximately HK\$14,447,000 (2001: HK\$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.

BANK BORROWINGS AND BANKING FACILITIES

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

USE OF PROCEEDS

Up to 31 December 2002, the net proceeds from placing and public offer of approximately HK\$65 million had been applied in accordance with its original purpose as follows:

- Approximately HK\$2.2 million for strengthening the Group’s research and development capability and development of new products.
- Approximately HK\$1.9 million for the acquisition of machinery and equipment for the facilities in the PRC and Hong Kong.
- Approximately HK\$2.6 million for expanding the Group’s sales and marketing operations.

USE OF PROCEEDS (Continued)

However, due to poor economic conditions, the construction project of the new factory premises and dormitory buildings in Shunde, the PRC will be further postponed. The directors believe that the existing production facilities and capacity is sufficient to meet orders in the near future as there is only 50% utilisation of the current capacity.

The balance which had 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.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice 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

During the year, Messrs. Arthur Andersen & Co. resigned. Charles Chan, Ip & Fung CPA Ltd. were appointed as the Company's auditors to fill up the casual vacancy.

A resolution for the re-appointment of Charles Chan, Ip & Fung CPA Ltd. as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board

SIU Paul Y.
Chairman

Hong Kong, 25 April 2003