

Report of the Directors

The directors have pleasure in presenting their report and the audited financial statements of the Company and the Group for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group consist of the marketing and distribution of electronic components, and manufacture and original equipment manufacture of electronic products and Internet appliances. During the year, the Group expanded its principal activities to include the design of electronic products. Other than this, there were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of markets for the year ended 31 March 2001 is as follows:

	Turnover		Contribution to profit from operating activities	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By activity:				
Marketing and distribution	941,086	808,676	28,666	30,848
Design, manufacture and original equipment manufacture	158,994	148,921	3,498	6,212
	<u>1,100,080</u>	<u>957,597</u>	<u>32,164</u>	<u>37,060</u>
By geographical area:				
Hong Kong	745,483	698,733	22,303	21,370
Singapore	233,497	245,896	9,005	14,792
United States	42,394	—	300	—
Korea	36,381	—	257	—
Europe	23,126	12,968	163	898
Other locations	19,199	—	136	—
	<u>1,100,080</u>	<u>957,597</u>	<u>32,164</u>	<u>37,060</u>

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 March 2001 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 17 to 50.

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2001.

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SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the respective audited financial statements and adjusted as appropriate, is set out below:

RESULTS

	Year ended 31 March				
	2001	2000	1999	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	1,100,080	957,597	1,051,470	977,802	1,031,362
PROFIT BEFORE TAX	21,162	25,093	9,579	3,333	36,044
Tax	(5,035)	(2,753)	(1,497)	(1,137)	(4,386)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	16,127	22,340	8,082	2,196	31,658

ASSETS AND LIABILITIES

	As at 31 March				
	2001	2000	1999	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TOTAL ASSETS	500,508	369,928	355,330	337,990	420,843
TOTAL LIABILITIES	(315,680)	(192,480)	(244,726)	(232,558)	(313,927)
NET ASSETS	184,828	177,448	110,604	105,432	106,916

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FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at the balance sheet date are set out in note 14 to the financial statements.

ASSOCIATES

Particulars of the Company's and the Group's interests in associates as at the balance sheet date are set out in note 15 to the financial statements.

BANK BORROWINGS AND FINANCE LEASE PAYABLES

Particulars of the bank borrowings and finance lease payables of the Group as at the balance sheet date are set out in notes 23 and 24 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons thereof, are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law (2001 Second Revision) of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK\$146,149,000.

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DIRECTORS

The directors of the Company during the year and at the balance sheet date were:

Executive directors:

Mr. So Yuk Kwan (*Chairman and Managing Director*)

Mr. So Wai Yin (*Deputy Managing Director*)

Mr. So Yiu Wah, Stephen (appointed on 6 March 2001)

Mr. So Chi On (appointed on 6 March 2001)

Mr. Ha Shu Tong (resigned on 6 March 2001)

Independent non-executive directors:

Dr. Hon. Lui Ming Wah, JP

Mr. Charles Edward Chapman

In accordance with articles 99 and 116 of the Company's articles of association, Mr. So Yiu Wah, Stephen, Mr. So Chi On and Dr. Hon. Lui Ming Wah, JP will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The terms of appointment of the independent non-executive directors will expire when they are required to retire by rotation in accordance with the Company's articles of association.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company, or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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DIRECTORS' INTERESTS IN SHARES

As at 31 March 2001, the interests of the directors in the equity securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Company	Number of shares and nature of interests	
	Personal interests	Other interests
Mr. So Yuk Kwan	—	70,644,200 (<i>Note</i>)
Mr. So Wai Yin	250,000	—
Mr. So Yiu Wah, Stephen	220,000	—
Mr. So Chi On	—	70,644,200 (<i>Note</i>)

Note: B.K.S. Company Limited, which is a wholly-owned subsidiary of Credit Cash Limited, is the legal and beneficial owner of 70,644,200 shares of HK\$0.10 each in the share capital of the Company. The entire issued share capital of Credit Cash Limited is held by Ansbacher (BVI) Limited, which is the trustee of a discretionary trust, the beneficiaries of which include Mr. So Chi On and other family members of Mr. So Yuk Kwan.

Save as disclosed above, none of the directors or their associates (as defined under the Listing Rules) had any personal, family, corporate or other interest in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company has granted share options in favour of the following director:

Name of director	Number of share options outstanding as at 31 March 2001
Mr. So Yiu Wah, Stephen	5,299,560 (<i>Note</i>)

Note: On 28 December 1999, Mr. So Yiu Wah, Stephen was granted share options by the Company to subscribe for 3,299,560 shares of the Company of HK\$0.10 each at a subscription price of HK\$1.08 per share, which are exercisable during the period from 28 June 2000 to 27 June 2003 (both dates inclusive). On 20 October 2000, Mr. So Yiu Wah, Stephen was also granted share options to subscribe for 2,000,000 shares of the Company of HK\$0.10 each at a subscription price of HK\$0.47 per share, which are exercisable during the period from 20 April 2001 to 19 April 2003 (both dates inclusive). The number of share options granted and the corresponding exercise price of the share options expiring on 27 June 2003 have been adjusted for the effect of the one for ten bonus issue of shares of the Company which was approved by the shareholders at the Annual General Meeting held on 22 September 2000.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held
B.K.S. Company Limited	70,644,200 (<i>Note</i>)
Credit Cash Limited	70,644,200 (<i>Note</i>)
Ansbacher (BVI) Limited	70,644,200 (<i>Note</i>)

Note: 70,644,200 shares in the Company were beneficially held by B.K.S. Company Limited, which is a wholly-owned subsidiary of Credit Cash Limited. Credit Cash Limited is a company wholly-owned by Ansbacher (BVI) Limited, which is the trustee of a discretionary trust, the beneficiaries of which include Mr. So Chi On and other family members of Mr. So Yuk Kwan. Therefore, the shares in which B.K.S. Company Limited is shown as being interested duplicate those of Credit Cash Limited and Ansbacher (BVI) Limited.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

On 8 December 2000, by a private arrangement, the Company entered into an agreement to repurchase 3,820,000 shares (the “Repurchase Shares”) in the Company for a consideration of 17,200 shares in Reigncom Limited (“Reigncom Korea”), an associate of the Group. The consideration for the share repurchase amounted to approximately HK\$12.49 million and the average repurchase price of the Repurchase Shares was approximately HK\$3.27 per share. The arrangement has the effect of partially unwinding the Company’s previous subscription of shares in Reigncom Korea. Following the completion of the share repurchase transaction on 13 March 2001, the Repurchase Shares were cancelled and the issued share capital of the Company was reduced by the par value thereof. The Company’s interest in Reigncom Korea has decreased to 20% thereafter.

The premium and the related expenses of HK\$13,343,000 arising from the share repurchase transaction have been charged to the share premium account. An amount equivalent to the par value of the shares cancelled and the premium on the share repurchase has been transferred from the share premium account of the Company to the capital redemption reserve.

The directors believe that the share repurchase transaction meets Reigncom Korea’s objectives to raise funds for its business development, and to broaden its shareholder base without diluting the shareholding interests of its existing shareholders, including the Group.

Further details of the transaction are set out in note 27 to the financial statements.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

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DISCLOSURE PURSUANT TO PRACTICE NOTE 19

The following disclosure is made by the Company in compliance with the disclosure requirements under Practice Note 19 (“PN19”) of the Listing Rules:

Advance to an entity

Details of the amounts due from and the guarantees given to Reigncom Korea and its subsidiaries (collectively, the “Reigncom Group”) by the Group as at 31 March 2001 are set out below:

	Group <i>HK\$’000</i>
Principal amount of advances and trade receivables	30,349
Interest receivable	417
Guarantees given to the bankers of Reigncom Group	20,600
	<u>51,366</u>

Further details of the advances and guarantees given to the Reigncom Group are set out in notes 15 and 30 to the financial statements.

Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 31 March 2001 provided by the Group to the Reigncom Group, in the sum of HK\$51,366,000, represented 27.8% of the consolidated net tangible assets of the Group of HK\$184,828,000 as at 31 March 2001.

Financial assistance provided to and guarantees given to affiliated companies

Relevant details in respect of the financial assistance provided to and guarantees given to the Reigncom Group by the Group as at 31 March 2001 are disclosed above under PN19 of the Listing Rules.

A consolidated balance sheet of the Reigncom Group as at 31 March 2001 and the Group’s attributable interest therein are presented below:

	The Reigncom Group <i>HK\$’000</i>	The Group’s attributable interest <i>HK\$’000</i>
Non-current assets	63,976	12,795
Current assets	123,431	24,686
Current liabilities	(76,670)	(15,334)
Non-current liabilities	(44,239)	(8,847)
	<u>66,498</u>	<u>13,300</u>

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MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers for the year accounted for approximately 35% of the Group's total sales and sales to the largest customer included therein amounted to approximately 13%. Purchases from the Group's five largest suppliers for the year accounted for approximately 90% of the Group's total purchases and purchases from the largest supplier included therein amounted to approximately 53%.

As far as the directors are aware, neither the directors, their associates, nor shareholders which to the knowledge of the directors own more than 5% of the Company's share capital had any interest in the five largest customers and suppliers.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 2 and 5 to the financial statements, respectively.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Group has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year covered by the annual report. The Company established an audit committee in 1999 in accordance with paragraph 14 of the Code of Best Practice.

Non-executive directors are not appointed for specific terms as all of the directors, excluding the Managing Director, without limitation to non-executive directors, are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the articles of association of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

So Yuk Kwan

Chairman

Hong Kong

26 July 2001