

The directors present their annual report and the audited financial statements for the year ended 30th June, 2001.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in the design, manufacture, marketing and distribution of consumer electronic products and property investment and development. The activities of the principal subsidiaries are set out in note 15 to the financial statements.

RESULTS

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

No interim dividend was paid to shareholders during the year. The directors do not recommend the payment of a final dividend.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the aggregate purchases attributable to the Group's five largest suppliers and the largest supplier were 34% and 11% of the total purchases, respectively. The aggregate sales attributable to the Group's five largest customers and the largest customer were 39% and 13% of total sales, respectively.

None of the directors, their associates or shareholders which to the knowledge of the directors, owns more than 5% of the Company's share capital had any beneficial interest in the five largest suppliers or customers of the Group.

RESERVES

Details of movements during the year in the reserves of the Group and of the Company are set out in note 29 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 65.

INVESTMENT PROPERTIES

During the year, the Group disposed of certain investment properties with market values amounting to HK\$17,932,000. The remaining investment properties of the Group were revalued at 30th June, 2001 by an independent firm of professional property valuers on an open market value basis, resulting in a deficit on revaluation of these properties amounting to HK\$7,342,000.

INVESTMENT PROPERTIES (cont'd)

Details of these and other movements during the year in the investment properties of the Group are set out in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 30th June, 2001 are set out on pages 66 to 68.

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of the share capital, warrants and share options of the Company are set out in note 27 to the financial statements.

DIRECTORS

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

Executive:

Hung Kin Sang, Raymond *(Chairman and Managing Director)*
Hung Wong Kar Gee, Mimi
Fang Chin Ping

Non-executive:

Soo Hung Leung, Lincoln

Independent Non-executive:

Lo Yun Tai
Lun Tsan Kau *(appointed on 20th September, 2000)*

In accordance with Clauses 95 and 112(A) of the Company's Bye-Laws, Messrs. Hung Kin Sang, Raymond and Soo Hung Leung, Lincoln retire and, being eligible, offers themselves for re-election. All remaining directors will continue in office. The terms of office of the non-executive directors are the periods up to their retirement by rotation in accordance with the Company's Bye-Laws.

Neither of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without the payment of compensation, other than statutory compensation.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

- (a) During the month of November 2000, iQuorum Cybernet Limited (“iQuorum”), a company which shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and which is owned as to 55% by the Company, advanced the sum of HK\$24,016,480 to the Company for the purpose of financing repayment of convertible bonds issued by the Company to the bondholders. Interest of HK\$1,057,089 was charged on the loan at the rate of 2% over the Hong Kong Prime Lending Rate per annum and the loan was made on normal commercial terms.

The borrowing of this money is a connected transaction for the Company under Chapter 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange. Specifically, under 14.26(6)(b) of the Listing Rules, the grant of financial assistance to a listed issuer (the Company) by a connected person (iQuorum), upon normal commercial terms or better and not in the ordinary and usual course of business of the listed issuer constitutes a connected transaction for the listed issuer (the Company) generally requiring shareholders' approval. 14.24(8) of the Listing Rules, however, provides an exemption from any disclosure or shareholders' approval requirement if the financial assistance granted by the connected person (iQuorum) to the listed issuer (the Company), is upon normal commercial terms (or better).

The directors of the Company confirmed that the amount borrowed has been fully repaid by the Company to iQuorum and the last instalment of loan repayment was made on 30th June, 2001.

- (b) On 1st September, 2000, Applied Electronics Limited (“AEL”), a wholly-owned subsidiary of the Company, entered into an agreement with iQuorum to dispose of the entire issue share capital of Applied Technology Limited, a wholly-owned subsidiary of AEL, for a cash consideration of HK\$51,300,000. The acquisition was completed on 24th October, 2000. Details of the acquisition were set out in the announcement dated 3rd September, 2000.
- (c) As at 30th June, 2001, Mr. Hung Kin Sang, Raymond had outstanding guarantees issued in favour of a bank in respect of credit facilities of credit facilities granted by the bank to a subsidiary of the Company amounting to HK\$3,919,000.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 30th June, 2001, the interests of the directors and their associates in the share capital and warrants of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of directors	Number of ordinary shares		Number of warrants	
	Personal interests	Corporate interests	Personal interests	Corporate interests
Hung Kin Sang, Raymond	3,130,000	453,984,584 <i>(Note)</i>	560,000	90,796,916 <i>(Note)</i>
Hung Wong Kar Gee, Mimi	8,870,056	453,984,584 <i>(Note)</i>	1,774,011	90,796,916 <i>(Note)</i>
Fang Chin Ping	100,000	–	20,000	–
Soo Hung Leung, Lincoln	1,100,000	–	220,000	–



DIRECTORS' INTERESTS IN SHARES AND WARRANTS (cont'd)

Note: These shares and warrants were held by the following companies:

	Number of ordinary shares	Number of warrants
Malcom Trading Inc.	43,992,883	8,798,576
Primore Co. Inc.	2,509,266	501,853
Capita Company Inc.	359,153,435	71,830,687
iQuorum	48,329,000	9,665,800

Malcom Trading Inc., Primore Co. Inc. and Capita Company Inc. are wholly-owned by the Marami Foundation as the trustee of Raymond Hung/Mimi Hung & Family Trust. All units in Raymond Hung/Mimi Hung & Family Trust are beneficially owned by a discretionary trust, the beneficiaries of which include the family members of Hung Kin Sang, Raymond and Hung Wong Kar Gee, Mimi.

The above directors also have indirect interests in iQuorum as the Group held 1,273,198,075 shares and 236,810,015 warrants in iQuorum at 30th June, 2001.

Save as disclosed above and other than certain nominee shares in subsidiaries held in trust for the Group by certain directors at 30th June, 2001, none of the directors or their associates had any personal interests, family interests, corporate interests or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

(a) Share Options in the Company

On 28th May, 1997, a share option scheme of the Company (the "Scheme") was adopted for a period of ten years. Details of the Scheme are set out in note 27 to the financial statements.

Details of share options granted under the Scheme to the directors of the Company are as follows:

Name of directors	Exercise price HK\$	Options outstanding at 1.7.2000 and 30.6.2001
Hung Kin Sang, Raymond	0.36	8,400,000
Hung Wong Kar Gee, Mimi	0.36	7,000,000

The outstanding share options can be exercised at any time on or before 2nd July, 2002.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES (cont'd)

(b) Share Options in iQuorum

Pursuant to the share option scheme adopted by iQuorum (the "iQuorum Scheme"), details of share options granted to the directors of the Company under the iQuorum Scheme are as follows:

Name of directors	Exercise price <i>HK\$</i>	Options outstanding at 1.7.2000	Lapsed during the year	Options outstanding at 30.6.2001
Hung Kin Sang, Raymond	0.25	9,280,000	(9,280,000)	–
Hung Wong Kar Gee, Mimi	0.25	6,960,000	(6,960,000)	–
Fang Chin Ping	0.25	1,160,000	(1,160,000)	–

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements 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. None of the directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company or had exercised any such rights during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above under the heading "Directors' interests in shares and warrants" in respect of certain directors, the register of substantial shareholders kept by the Company under Section 16(1) of the SDI Ordinance discloses no person as having an interest in 10% or more of the issued share capital of the Company as at 30th June, 2001.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased certain of its convertible bonds on the Societe de la Bourse de Luxembourg S.A. and these convertible bonds were subsequently cancelled by the Company. All outstanding convertible bonds were redeemed on 30th November, 2000.

Details of these are set out in note 26 to the financial statements.

Save as disclosed above, there was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year.

DONATIONS

During the year, the Group made charitable and other donations of HK\$516,000.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 44 to the financial statements.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the Audit Committee consisted of only one independent non-executive director for the period from 1st July, 2000 to 19th September, 2000.

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

Hung Kin Sang, Raymond

Chairman and Managing Director

Hong Kong, 22nd October, 2001