

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

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 design, manufacture and original equipment manufacture of electronic products and Internet appliances. There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and loss from operating activities by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDEND

The Group's loss for the year ended 31 March 2002 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 18 to 68.

The directors do not recommend the payment of any dividend in respect of the year.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 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 31 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 (2002 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 32 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2002, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law (2002 Revision) of the Cayman Islands, amounted to HK\$129,794,000.

Report of the Directors

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				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	<u>1,194,465</u>	<u>1,100,080</u>	<u>957,597</u>	<u>1,051,470</u>	<u>977,802</u>
PROFIT/(LOSS) BEFORE TAX	<u>(51,945)</u>	<u>21,162</u>	<u>25,093</u>	<u>9,579</u>	<u>3,333</u>
Tax	<u>(395)</u>	<u>(5,035)</u>	<u>(2,753)</u>	<u>(1,497)</u>	<u>(1,137)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(52,340)</u>	<u>16,127</u>	<u>22,340</u>	<u>8,082</u>	<u>2,196</u>

Assets and Liabilities

	As at 31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TOTAL ASSETS	<u>487,115</u>	<u>500,508</u>	<u>369,928</u>	<u>355,330</u>	<u>337,990</u>
TOTAL LIABILITIES	<u>(315,348)</u>	<u>(315,680)</u>	<u>(192,480)</u>	<u>(244,726)</u>	<u>(232,558)</u>
NET ASSETS	<u>171,767</u>	<u>184,828</u>	<u>177,448</u>	<u>110,604</u>	<u>105,432</u>

DIRECTORS

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

Executive directors:

Mr. So Yuk Kwan (*Chairman*)

Mr. Lee Jeong Kwan

(appointed on 1 September 2001)

Mr. So Wai Yin

Mr. So Chi On

Mr. So Yiu Wah, Stephen

(resigned on 14 September 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. Lee Jeong Kwan and Mr. Charles Edward Chapman 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.

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.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2002, 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	–	77,632,200 (<i>Note</i>)
Mr. So Chi On	–	77,632,200 (<i>Note</i>)
Mr. So Wai Yin	275,000	–

Note: B.K.S. Company Limited, which is a wholly-owned subsidiary of Credit Cash Limited, is the legal and beneficial owner of 77,632,200 shares of HK\$0.10 each in the issued 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.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

Save as disclosed above, none of the directors or their associates, as defined under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

SHARE OPTION SCHEME

On 1 April 1996, the Company adopted a share option scheme (the “Scheme”) under which the directors may, at their discretion, grant options to the executive directors of the Company and employees of the Group to subscribe for ordinary shares in the Company.

The maximum number of shares in respect of which options may be granted (together with shares issued pursuant to options exercised and shares in respect of which any options remain outstanding) under the Scheme shall not exceed 10% of the shares of the Company in issue at any time. At 31 March 2002, the number of shares issuable under share options granted under the Scheme was 13,700,000, which represented approximately 5.8% of the Company’s shares in issue as at that date. The maximum number of shares issuable under the Scheme to each employee shall not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer at a consideration of HK\$1.00 payable by the grantee. The exercise period of the share options granted is determinable by the directors, and shall not exceed a period of three years commencing on the expiry of six months after the date on which the share options are accepted by the grantee and expiring on the last date of such period or 31 March 2006, whichever is the earlier.

The exercise price of the Share options is determinable by the directors, but may not be less than the higher of (i) a price being not less than 80% of the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet for the five days immediately preceding the date of grant; and (ii) the nominal value of the Company’s shares.

After the adoption of the amended Chapter 17 of the Listing Rules with effect from 1 September 2001, during the year, an aggregate number of 4,700,000 share options were granted to an executive director of the Company and certain full-time employees of the Group in accordance with the terms of the Scheme and Chapter 17 of the Listing Rules. The grant of options to an executive director was also approved by the independent non-executive directors of the Company at the date of grant.

In order to comply with the new requirements of Chapter 17 of the Listing Rules, a new share option scheme has been approved in the extraordinary general meeting held on 13 May 2002 (the “New Scheme”).

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the New Scheme include, but not limited to, any employees, including directors of the Company or any of its subsidiaries or investee companies.

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.

Report of the Directors

SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	At 1 April 2001	Number of share options		At 31 March 2002	Date of grant of share options (Note 1)	Exercise period of share options (both dates inclusive)	Exercise price of share options (Note 2) HK\$	Price of Company's shares at grant date of options (Note 3) HK\$
		Granted during the year	Lapsed during the year					
Directors								
So Yiu Wah, Stephen	3,299,560	–	(3,299,560)	–	28 December 1999	28 June 2000–27 June 2003	1.08	1.72
	2,000,000	–	(2,000,000)	–	20 October 2000	20 April 2001–19 April 2003	0.47	0.53
Lee Jeong Kwan	–	2,000,000	–	2,000,000	2 November 2001	2 May 2002–1 May 2005	0.265	0.24
	<u>5,299,560</u>	<u>2,000,000</u>	<u>(5,299,560)</u>	<u>2,000,000</u>				
Other employees								
In aggregate	5,500,000	–	–	5,500,000	28 December 1999	28 June 2000 – 27 June 2003	1.08	1.72
	3,500,000	–	–	3,500,000	20 October 2000	20 April 2001 – 19 April 2003	0.47	0.53
	–	2,700,000	–	2,700,000	2 November 2001	2 May 2002 – 1 May 2005	0.265	0.24
	<u>9,000,000</u>	<u>2,700,000</u>	<u>–</u>	<u>11,700,000</u>				
	<u>14,299,560</u>	<u>4,700,000</u>	<u>(5,299,560)</u>	<u>13,700,000</u>				

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. Subsequent to the balance sheet date, the Company completed a rights issue of 119,510,806 rights shares on 3 June 2002. The exercise prices of the share options are stated before any adjustments for the effect of the rights issue. Details of the adjustments in share options after taking into account the rights issue are set out in note 31 to the financial statements.
- The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

Report of the Directors

SHARE OPTION SCHEME *(continued)*

Summary details of the Company's share option scheme are also set out in note 31 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year because the directors are of the opinion that the values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, 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 or have otherwise notified to the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
B.K.S. Company Limited	77,632,200 <i>(Note)</i>	32.85
Credit Cash Limited	77,632,200 <i>(Note)</i>	32.85
Ansbacher (BVI) Limited	77,632,200 <i>(Note)</i>	32.85

Note: 77,632,200 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

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

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 (as defined in note 17 to the financial statements) and its subsidiaries (collectively as the “Reigncom Group”) by the Group as at 31 March 2002 are set out below:

	Group <i>HK\$’000</i>
Principal amount of advances and trade receivables	32,201
Interest receivable	47
Guarantees given to the bankers of Reigncom Group	20,600
	<hr/>
	52,848
	<hr/>

Further details of the advances and guarantees given to the Reigncom Group are set out in notes 21, 24 and 34 to the financial statements.

Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 31 March 2002 provided by the Group to the Reigncom Group, in the sum of HK\$52,848,000, represented 31% of the consolidated net tangible assets of the Group of HK\$168,916,000 as at 31 March 2002.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group’s five largest customers for the year accounted for approximately 43% of the Group’s total sales and sales to the largest customer included therein amounted to approximately 21%. Purchases from the Group’s five largest suppliers for the year accounted for approximately 85% of the Group’s total purchases and purchases from the largest supplier included therein amounted to approximately 41%.

None of the directors of the Company or any of their associates, or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company’s issued share capital) had any beneficial interest in the Group’s five largest customers and suppliers.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

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 3 and 7 to the financial statements, respectively.

Report of the Directors

COMPLIANCE WITH THE 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 Appendix 14 of the Listing Rules throughout the year covered by the annual report.

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.

AUDIT COMMITTEE

The Company has an audit committee (the “Audit Committee”) which was established in accordance with the Code for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Audit Committee comprises the two independent non-executive directors 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 2002