

WING LEE HOLDINGS LIMITED
REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 30 September 2000.

Principal activities

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consisted of the design, manufacture and sale of DC switches, AC switches, jacks, AC sockets and speaker terminals, all of which are basic components commonly used in electrical appliances and electronic products such as audio and video, telecommunication equipment, toys and computers. There were no significant changes in the nature of the Group's principal activities during the year.

Segmented information

An analysis of the Group's turnover and contribution to profit before tax by principal activity and geographical area of operations for the year ended 30 September 2000 is as follows:

	Turnover HK\$'000	Contribution to profit before tax HK\$'000
By activity:		
DC switches	78,962	(1,208)
AC switches	4,340	(39)
Jacks	55,687	(551)
AC sockets	15,987	(176)
Speaker terminals	17,049	(198)
	<hr/>	<hr/>
	<u>172,025</u>	(2,172)
Interest income		<hr/>
		6,320
		<hr/>
		<u>4,148</u>

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By geographical area:

People's Republic of China:

Hong Kong, SAR

Other countries

142,762

29,263

172,025

699

3,449

4,148

Results and dividends

The Group's profit for the year ended 30 September 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 40.

The directors do not recommend the payment of dividend in respect of the year ended 30 September 2000.

Summary financial information

The following is a summary of the combined/consolidated results and assets and liabilities of the Group for the last five financial years prepared on the basis set out in notes 1 to 2 below.

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Results

	Year ended 30 September				
	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
Turnover	<u>172,025</u>	<u>123,843</u>	<u>145,711</u>	<u>170,863</u>	<u>140,537</u>
Profit before tax	4,148	13,940	7,992	64,959	31,228
Tax	<u>(2,692)</u>	<u>(2,549)</u>	<u>(2,800)</u>	<u>(5,672)</u>	<u>(4,512)</u>
Net profit from operating activities attributable to shareholders	<u>1,456</u>	<u>11,391</u>	<u>5,192</u>	<u>59,287</u>	<u>26,716</u>

Assets and liabilities

	As at 30 September				
	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
Total assets	238,580	221,098	207,141	234,789	126,543
Total liabilities	<u>(67,940)</u>	<u>(50,620)</u>	<u>(44,954)</u>	<u>(74,425)</u>	<u>(63,615)</u>
Net assets	<u>170,640</u>	<u>170,478</u>	<u>162,187</u>	<u>160,364</u>	<u>62,928</u>

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Notes:

1. The summary of the combined results for each of the two years ended 30 September 1997 includes the results of the Company and its subsidiaries as if the current structure of the Group had been in existence throughout these financial years. The results of the Group for the three years ended 30 September 2000 are extracted from the published audited financial statements of the Group.
2. The combined/consolidated balance sheets as at 30 September 1996 and 1997 are extracted from the published financial statements for the year ended 30 September 1997 prepared on the basis as if the Group had been in existence as at 30 September 1996.

Fixed assets

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

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

Major customers and suppliers

In the year under review, sales to the five largest customers of the Group accounted for 36% of the Group's total sales for the year and sales to the Group's largest customer included therein amounted to 10%.

Purchases from the five largest suppliers accounted for 21% of the Group's total purchases for the year and purchases from the Group's largest supplier included therein amounted to 6%.

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

Share capital, share options and share premium

Details of the Company's share capital, share options and share premium account are set out in notes 20 and 21 to the financial statements.

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Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 21 to the financial statements.

Distributable reserves

At 30 September 2000, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus account and retained profits, amounted to HK\$110,654,000, as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK\$31,986,000 as at 30 September 2000 may be distributed in the form of fully paid bonus shares.

Directors

The directors of the Company during the year were:

Executive directors

Mr. Chow Tak Hung

Miss Chow Woon Yin

Mr. So Shun Tong, Thomson

Miss Chui Wai Hung, Rachel

Miss Wong Siu Wah

Independent non-executive directors

Mr. Chiu Pak Yue, Leo

Mr. Hui Chiu Chung

In accordance with the Company's bye-laws 87 and 88, Messrs. So Shun Tong, Thomson, Chiu Pak Yue, Leo and Hui Chiu Chung will retire at the forthcoming annual general meeting and will not offer themselves for re-election.

Remuneration of directors and the five highest paid individuals

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

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Directors' service contracts

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing 1 February 2000 (for Mr. Chow Tak Hung, Miss Chow Woon Yin, Mr. So Shun Tong, Thomson and Miss Chui Wai Hung, Rachel) and 1 April 1998 (for Miss Wong Siu Wah), provided that either party to the service contract may terminate the contract by serving to the other party a written notice of not less than 3 months prior to the effective date of termination.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' interests in share capital

At 30 September 2000, the interests of the directors in the share capital 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 ("SDI Ordinance") were as follows:

Name	Type of interest	Number of issued ordinary shares of HK\$0.10 each in the Company
Mr. Chow Tak Hung	Corporate (Note)	210,000,000
Miss Chow Woon Yin	Corporate (Note)	210,000,000
Miss Wong Siu Wah	Corporate (Note)	210,000,000

Note: These shares are owned by Bright Asia Holdings Limited, the entire issued share capital of which are owed as to 60%, 20% and 20% by Mr. Chow Tak Hung, Miss Chow Woon Yin and Miss Wong Siu Wah, respectively.

Save as disclosed above and except for nominal shares in the Group's subsidiaries held in trust for the Group by a director, none of the directors or their associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

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Directors' rights to acquire shares

Under the share option scheme (the "Scheme") adopted by the Company, the board of directors of the Company may, at their discretion, grant options to eligible employees of the Group, including executive directors of the Company, to subscribe for shares in the Company. Details of the Scheme are set out in note 20 to the financial statements.

Details of movements in the share options granted to certain directors during the year are as follows:

Directors	Number of share options			Exercise period	Exercise price HK\$
	At beginning of year	Lapsed during the year	As at 30 September 2000		
Mr. Chow Tak Hung	1,000,000	(1,000,000)	–	9 September 1998 to 30 September 2000	0.78
Ms. Chow Woon Yin	1,000,000	(1,000,000)	–	9 September 1998 to 30 September 2000	0.78
Mr. So Shun Tong, Thomson	500,000	(500,000)	–	9 September 1998 to 30 September 2000	0.78
Ms. Chui Wai Hung, Rachel	250,000	(250,000)	–	9 September 1998 to 30 September 2000	0.78
	<u>2,750,000</u>	<u>(2,750,000)</u>	<u>–</u>		

Subsequent to the balance sheet date, on 5 October 2000, 6,000,000, 6,000,000 and 6,500,000 share options in respect of the ordinary shares of the Company were granted to Mr. Chow Tak Hung, Ms. Chow Woon Yin and Ms. Wong Siu Wah, respectively, at nil cash consideration. The share options entitled them to subscribe for a total of 18,500,000 ordinary shares of the Company. The share options are exercisable at a price of HK\$0.244 per share at any time from 5 October 2000 to 17 March 2007.

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Apart from the foregoing, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Biographical details in respect of directors and senior management staff

Executive directors

Mr. CHOW Tak Hung, aged 47, is the chairman and managing director and founder of the Group. Mr. Chow is the elder brother of Miss Chow Woon Yin. He is responsible for the overall business strategy and policy making of the Group. He also oversees the Group's production. Mr. Chow has over 26 years' experience in the manufacture and sale of DC switches, jacks, AC sockets and speaker terminals.

Miss CHOW Woon Yin, aged 44, is the deputy chairman of the Group and is the younger sister of Mr. Chow Tak Hung. She is responsible for the sales, sourcing and administration of the Group. She joined the Group in March 1985 and has over ten years' experience in the manufacture and sale of DC switches, jacks, AC sockets and speaker terminals.

Mr. SO Shun Tong, Thomson, aged 37, is the engineering director of the Group. Mr. So is responsible for all engineering matters, design and development and production. He joined the Group in March 1985 and has over ten years' experience in the manufacture of plastic products and metallic products.

Miss CHUI Wai Hung, Rachel, aged 33, is the finance director and company secretary of the Group. Miss Chui is responsible for the Group's corporate finance and accounting matters. She holds a bachelor's degree in business administration from the Chinese University of Hong Kong. She is an associate member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Society of Accountants.

Miss WONG Siu Wah, aged 53, is the marketing director of the Group. Miss Wong is responsible for the sales of the Group in the overseas markets. Prior to becoming an executive director of the Company in March 1998, Miss Wong had been serving as a director of various subsidiaries of the Company for a number of years and had over 15 years' experience in the toy industry.

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Independent non-executive directors

Mr. CHIU Pak Yue, Leo, aged 37, is admitted as a solicitor of the Supreme Court of Hong Kong. He is a partner of Chiu & Partners, a firm of solicitors in Hong Kong.

Mr. HUI Chiu Chung, aged 53, is the group managing director of OSK Asia Holdings Limited, the second vice chairman of The Stock Exchange of Hong Kong Limited, a director of Hong Kong Securities Clearing Company Limited and a member of Advisory Committee of Hong Kong Securities & Futures Commission, with over 27 years' experience in the securities and investment industry and is at present holding directorships in a number of publicly listed companies.

Senior management

Mr. LIU Rong Gen, aged 44, is the factory manager of the Group. Mr. Liu is responsible for the production and administration of the Group's factory in the PRC. Before joining the Group in June 1992, he was an officer of Sijia Government in Dongguan, the PRC.

Mr. YE Maan Quiao, aged 36, is the deputy factory manager of the Group. Mr. Ye is responsible for the daily production of the Group. He joined the Group in April 1985 and has 12 years' experience in the electronic component manufacturing field.

Miss CHAN Sze Wan, Brenda, aged 29, is the marketing manager of the Group. Miss Chan joined the Group in October 1992 and is responsible for the Group's administration, sales and marketing. Prior to joining the Group, she had over three years' experience in sales and marketing in the garment business.

Mr. LAU Siu Luen, aged 47, is the engineering manager of the Group. Mr. Lau is responsible for the metallic mould-making and plastic mould-making operations of the Group. He joined the Group in April 1995 and has over 23 years' experience in mould-making and management.

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Directors' interests in contracts

During the year, the Group had material transactions in the normal course of business with a related company. Mr. Chow Tak Hung was interested in this transaction to the extent that he had direct beneficial interest in the related company. Details of this transaction are set out in note 4 to the financial statements.

Apart from the foregoing, no director had a significant beneficial interest, either direct or indirect, in any significant contract to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

Related party transactions

Details of related party transactions of the Group are set out in note 4 to the financial statements.

Substantial shareholders

At 30 September 2000, the following party was interested in 10% or more of the issued share capital of the Company as 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 issued ordinary shares held	Percentage of total issued ordinary shares
Bright Asia Holdings Limited	210,000,000	75%

The entire issued share capital of Bright Asia Holdings Limited are held as to 60% by Mr. Chow Tak Hung, 20% by Miss Chow Woon Yin and 20% by Miss Wong Siu Wah.

Save as disclosed above, no other person 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 sales of the Company's listed securities

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 30 September 2000.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's bye-laws, or the Companies Act 1981 of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the accounting period covered by the annual report, save that the non-executive directors are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company’s bye-laws.

Audit Committee

To comply with Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company set up an Audit Committee (the “Committee”) on 31 January 2000. Written terms of reference have been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Company’s two independent non-executive directors were appointed as members upon the establishment of the Committee.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 24 to the financial statements.

Auditors

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chow Tak Hung

Chairman and Managing Director

Hong Kong, 3 January 2001