

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consisted of the design, development, manufacture and sale of a wide range of (1) electronic and related components and parts (comprising quartz crystals, liquid crystal displays, printed circuit boards and watch movements) and (2) consumer electronic products (comprising electronic calculators, electronic watches and clocks). They are also engaged in the trading of electronic and related components and parts, in particular, Russian-made integrated circuits.

There were no changes in the nature of the Company's and 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 operations for the year ended 30 September 2000 is as follows:

	Turnover <i>HK\$'000</i>	Contribution to profit from operating activities <i>HK\$'000</i>
By activity:		
Electronic calculators	528,426	23,228
Electronic watches and clocks	45,946	13,311
Integrated circuits	94,306	10,461
Quartz crystals	185,463	41,857
Watch movements	128,590	10,402
Liquid crystal displays	101,001	18,537
Others	10,541	1,953
	<u>1,094,273</u>	<u>119,749</u>
By geographical area:		
The People's Republic of China:		
Hong Kong	274,692	29,934
Elsewhere	787,529	86,208
Other countries	32,052	3,607
	<u>1,094,273</u>	<u>119,749</u>

Report of the Directors

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 September 2000 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 27 to 58.

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

SUMMARY FINANCIAL INFORMATION

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

	Year ended 30 September				
	2000	1999	1998	1997	1996
RESULTS	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>1,094,273</u>	<u>1,178,783</u>	<u>845,758</u>	<u>521,406</u>	<u>422,799</u>
Profit before tax	107,807	297,207	242,395	135,338	98,867
Tax	<u>(6,571)</u>	<u>(26,427)</u>	<u>(26,500)</u>	<u>(12,996)</u>	<u>(8,904)</u>
Net profit attributable to shareholders	<u>101,236</u>	<u>270,780</u>	<u>215,895</u>	<u>122,342</u>	<u>89,963</u>

	As at 30 September	
	2000	1999
ASSETS AND LIABILITIES	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	391,159	324,670
Net current assets	475,246	361,893
Non-current liabilities	<u>(75,741)</u>	<u>-</u>
Net assets	<u>790,664</u>	<u>686,563</u>

Notes:

- The summary of the combined results for the three years ended 30 September 1998 has been extracted from the Company's prospectus dated 25 August 1999. This summary was prepared from the audited financial statements of the companies now comprising the Group, after appropriate adjustments and reclassifications, as if the structure of the Group had been in existence throughout these financial years. Accordingly, the consolidated results of the Group for the three years ended 30 September 1998 include the results of the Company and its subsidiaries with effect from 1 October 1995 or since their respective dates of incorporation, where this is a shorter period. The results of the Group for the two years ended 30 September 2000 are set out on page 27 of the financial statements.
- The only published assets and liabilities of the Group are those as set out on page 29 of the financial statements.

FIXED ASSETS AND INVESTMENT PROPERTY

Details of movements in the fixed assets and investment property of the Group during the year are set out in note 12 to the financial statements.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and an associate are set out in notes 13 and 14 to the financial statements, respectively.

BORROWINGS AND INTEREST CAPITALISED

Bank borrowings which are repayable within one year or on demand are classified as current liabilities and the details are set out in note 19 to the financial statements.

No interest was capitalised by the Group during the year.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and share options of the Company during the year are set out in note 23 to the financial statements.

During the year, 40,000,000 share options were granted to certain directors and full-time employees of the Group to subscribe for the ordinary shares of the Company at an initial subscription price of HK\$1.20 per share exercisable up to 24 October 2009. Of these 40,000,000 share options, 6,000,000 share options were granted to each of Ms. Wong Choi Kam and Ms. Lam Kam Chun, respectively, and 1,500,000 share options were granted to each of Ms. Wong King Ching, Helen and Mr. Leung Chi Fai, respectively. All of them are Company directors. A total of 450,000 share options were exercised during the year and the Company had 39,550,000 outstanding share options at the balance sheet date.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES

As 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\$390,154,000. In accordance with the Companies Act of 1981 of Bermuda, the contributed surplus may be distributed in certain circumstances. In addition, the Company's share premium account with a balance of HK\$172,267,000, may be distributed in the form of fully paid bonus shares.

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 Company's listed securities during the year.

Report of the Directors



MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's largest customer and five largest customers accounted for approximately 8.4% and 28.7%, respectively, of the Group's total turnover for the year.

Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 16.7% and 29.6%, respectively, of the Group's total purchases for the year.

As far as the directors are aware, neither the directors, their associates, nor 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 or five largest suppliers.

DIRECTORS

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

Executive directors:

The late Mr. Wong Choi Fung (passed away on 23 November 1999)
Ms. Wong Choi Kam
Ms. Wong King Ching, Helen
Ms. Lam Kam Chun
Mr. Leung Chi Fai

Non-executive directors:

Mr. Wang Yie Long (appointed on 9 December 1999 and resigned on 9 October 2000)
Mr. Lin Yuan Qin (resigned on 1 August 2000)
Mr. Wong Kim Seong
Mr. Chiu Pak Yue, Leo
Mr. Wong Kai Tung, Simon*
Ms. Loh Jiah Yee, Katherine*

* *Independent non-executive director*

In accordance with bye-law 111 of the Company's bye-laws, Mr. Chiu Pak Yue, Leo and Mr. Wong Kai Tung, Simon will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 1 August 1999 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, none of the directors who offered 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 payment of compensation, other than statutory compensation.

The non-executive directors are subject to retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries 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.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2000, the interests of the directors in the share capital of the Company or their associates, 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:

Name of director	Nature of interest	Number of ordinary shares held	Number of share options held
<i>Executive directors:</i>			
Ms. Wong Choi Kam	Personal	100,000,000	6,000,000
Ms. Wong King Ching, Helen	Corporate (Note 1)	400,000,000	1,500,000
Ms. Lam Kam Chun	Family (Note 2)	100,000,000	6,000,000
Mr. Leung Chi Fai	Personal	-	1,050,000
<i>Non-executive director:</i>			
Mr. Wong Kim Seong	Personal	50,000,000	-

Notes:

- As at the said date, these shares were beneficially owned by Farnell Profits Limited, the entire issued share capital of which was previously held by the late Mr. Wong Choi Fung and currently forms part of the estate of the late Mr. Wong. Ms. Wong King Ching, Helen, a director of the Company, is a beneficiary of the said estate, whose interest in the shares of Farnell Profits Limited is not yet ascertained until completion of the administration of estate of the late Mr. Wong.
- As at the said date, these shares were beneficially owned by Notchino Investment Inc., the entire issued share capital of which was held by Mr. Wong Choi Ping who is the spouse of Ms. Lam Kam Chun.

Other than disclosed above, none of the directors of the Company or their associates had any personal, family, corporate or other interest in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Other than the share option scheme of the Company as disclosed in note 23 to the financial statements, 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.

Report of the Directors

CONNECTED TRANSACTIONS

The directors have reviewed the connected transactions (as defined under the Rules Governing the Listing of Securities (the "Listing Rules") on the Hong Kong Stock Exchange, as set out in note 27 to the financial statements, and confirmed that, in the opinion of the directors, such transactions had been entered into in compliance with the following conditions:

- (i) the audit committee reviewed the transactions and confirmed that:
 - (a) the transactions were entered into in the ordinary and usual course of business of the Group;
 - (b) the transactions were entered into on normal commercial terms (to the extent that there were comparable transactions), and (where applicable) in accordance with the terms of the agreements governing such transactions or (where there was no agreement) on terms no less favourable than those available to/from independent third parties;
 - (c) the transactions were entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (d) the transactions do not exceed the limit set out in (iii)(d) below;
- (ii) details of the transactions were set out in the Company's annual report and accounts as set out in Rule 14.25(1)(A) to (D) of the Listing Rules;
- (iii) the auditors of the Company reviewed the transactions and confirmed that:
 - (a) the transactions had been approved by the directors;
 - (b) the transactions had been entered into in accordance with the terms of the agreement relating to the transactions in question;
 - (c) the transactions had been entered into in accordance with the pricing policies of the Group; and
 - (d) the aggregate consideration paid or received in respect of the transactions in the financial year reported did not exceed 3% of the combined or consolidated turnover of the Group as shown in its audited accounts.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, as at 30 September 2000, other than the interests disclosed under the heading "Directors' interests in securities", no other person or corporate entity had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

PENSION SCHEME

At no time during the year did the Company or any of its subsidiaries operate any pension scheme or incur any costs thereon for the benefit of the directors and employees of the Company and its subsidiaries.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws which would oblige the Company to offer new shares on a pro rata basis to existing shareholders although there is no restriction against such rights under the laws of Bermuda.

CONVERTIBLE BONDS

Details of the convertible bonds of the Group at the balance sheet date are set out in note 22 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

AUDIT COMMITTEE

The Company's Audit Committee was set up on 6 August 1999 with written terms of reference for the purpose of reviewing and providing supervision of the financial reporting process and internal control of the Group. The Committee comprised Mr. Wong Kai Tung, Simon and Ms. Loh Jiah Yee, Katherine, the two independent non-executive directors, and Mr. Chiu Pak Yue, Leo, a non-executive director of the Company. The financial statements as set out on pages 27 to 58 were reviewed by the audit committee at its meeting on 20 January 2001.

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

Wong Choi Kam
Chairman

Hong Kong
22 January 2001

