

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 2001.

PRINCIPAL ACTIVITIES

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

There were no significant 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 are set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 September 2001 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 26 to 62.

The directors do not recommend the payment of any dividends in respect of the year ended 30 September 2001.

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 three financial years, respectively, prepared on the basis set out in notes 1 and 2 below.

	Year ended 30 September				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
RESULTS					
Turnover	<u>661,622</u>	<u>1,094,273</u>	<u>1,178,783</u>	<u>845,758</u>	<u>521,406</u>
Profit before tax	<u>8,044</u>	<u>107,807</u>	<u>297,207</u>	<u>242,395</u>	<u>135,338</u>
Tax	<u>(2,591)</u>	<u>(6,571)</u>	<u>(26,427)</u>	<u>(26,500)</u>	<u>(12,996)</u>
Net profit attributable to shareholders	<u>5,453</u>	<u>101,236</u>	<u>270,780</u>	<u>215,895</u>	<u>122,342</u>

	As at 30 September		
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets	<u>479,716</u>	<u>391,159</u>	<u>324,670</u>
Net current assets	<u>327,697</u>	<u>475,246</u>	<u>361,893</u>
Non-current liabilities	<u>(537)</u>	<u>(75,741)</u>	<u>—</u>
Net assets	<u>806,876</u>	<u>790,664</u>	<u>686,563</u>

Notes:

- The summary of the combined results for the two 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 two years ended 30 September 1998 include the results of the Company and its subsidiaries with effect from 1 October 1996 or since their respective dates of incorporation, where this is a shorter period.

The results of the Group for the three years ended 30 September 2001 are set out on page 26 of the financial statements and those extracted from the Company's annual reports for the year ended 30 September 1999 and 2000.
- The only published assets and liabilities of the Group are those as set out on page 28 of the financial statements and those extracted from the Company's annual reports for the year ended 30 September 1999 and 2000.

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 principal subsidiaries and its associate are set out in notes 13 and 14 to the financial statements, respectively.

BORROWINGS AND INTEREST CAPITALISED

Details of the Group's borrowings at the balance sheet date are set out in notes 19, 21 and 22 to the financial statements.

As at 30 September 2001, the Company failed to meet a term of the subscription agreement of the convertible bonds in respect of the Group's interest coverage ratio. As a result, the bondholders have an option to demand immediate payment in full of the convertible bonds. Accordingly outstanding convertible bonds of HK\$59,675,000 have been classified under current liabilities as at 30 September 2001.

No interest was capitalised by the Group during the year.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and details of the share options of the Company are set out in note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30 September 2001, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus account and retained profits, amounted to HK\$380,882,000. 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\$175,861,000 as at 30 September 2001 may be distributed in the form of fully paid bonus shares.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

On 17 and 18 September 2001, the Company repurchased in aggregate 230,000 of its own shares of HK\$0.10 each (the "Repurchase Shares") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The consideration for the repurchase of shares amounted to approximately HK\$68,000 and the average repurchase price of the Repurchase Shares was approximately HK\$0.29 per share.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES *(continued)*

The Repurchase Shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of shares of approximately HK\$45,000 has been charged to the share premium account. An amount of HK\$23,000 equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Further details of these transactions are set out in note 24 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's largest customer and five largest customers accounted for approximately 3.8% and 12.4%, respectively, of the Group's total turnover for the year.

Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 10.7% and 23.0%, 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:

Ms. Wong Choi Kam

Ms. Wong King Ching, Helen

Ms. Lam Kam Chun

Mr. Leung Chi Fai

Ms. Wong King Man

(appointed on 7 August 2001)

Non-executive directors:

Mr. So Day Wing*

(appointed on 7 August 2001)

Mr. Wang Yie Long

(resigned on 9 October 2000)

Ms. Loh Jiah Yee, Katherine*

(resigned on 7 August 2001)

Mr. Wong Kim Seong

Mr. Chiu Pak Yue, Leo

Mr. Wong Kai Tung, Simon*

* *Independent non-executive director*

DIRECTORS *(continued)*

In accordance with bye-law 111 of the Company's bye-laws, Ms. Lam Kam Chun and Mr. Leung Chi Fai 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, other than Ms. Wong King Man, 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 AND SHARE OPTIONS

As at 30 September 2001, the interests of the directors in the share capital of the Company or its 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
Executive directors:			
Ms. Wong Choi Kam	Personal	100,500,000	6,000,000
Ms. Wong King Ching, Helen	Corporate (Note 1)	400,000,000	–
	Personal	200,000	1,500,000
Ms. Wong King Man	Corporate (Note 1)	400,000,000	–
Ms. Lam Kam Chun	Family (Note 2)	100,000,000	6,000,000
Mr. Leung Chi Fai	Personal	–	1,050,000
Non-executive director:			
Mr. Wong Kim Seong	Personal	50,000,000	–

DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS *(continued)*

Notes:

1. 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 and Ms. Wong King Man, directors of the Company, are beneficiaries 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.
2. 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 24 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.

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 28 to the financial statements, and confirmed that such transactions had been entered into in compliance with the following conditions:

- (i) The audit committee had 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;

CONNECTED TRANSACTIONS *(continued)*

- (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 2001, other than the interests disclosed under the heading "Directors' interests in securities and share options", 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.

DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Details of the directors' remuneration and that of the five highest paid employees in the Group are set out in note 7 to the financial statements.

RETIREMENT SCHEME AND COSTS

Details of the retirement 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, 6 and 7 to the financial statements, respectively.

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.

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, except that the independent non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

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 controls of the Group. The members of the Audit Committee at the date of this report comprised Mr. Wong Kai Tung, Simon and Mr. So Day Wing, 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 26 to 62 were reviewed by the audit committee at its meetings on 24 January 2002 and 28 January 2002.

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
28 January 2002