

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal displays and related products.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 26 on the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2001 are set out in note 14 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 23 to 64.

An interim dividend of 6.5 cents per share (2000: 15 cents per share) was paid on 23 November 2001. The directors now recommend the payment of a special dividend of 4.0 cents per share (2000: Nil) and a final dividend of 2.5 cents per share (2000: 18 cents per share) in respect of the year ended 31 December 2001.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24 on the financial statements. Shares were issued during the year as consideration for the acquisition of additional interests in a subsidiary. Shares were also issued on the exercise of share options and as a result of scrip dividends.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to HK\$332,000 (2000: HK\$1,954,000).

FIXED ASSETS

Movements in fixed assets during the year are set out in note 12 on the financial statements.

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Dr Chang Chu Cheng, Chairman
 Dr Yan Sze Kwan
 Chung Shun Ming
 Kwok Siu Kwan
 Dr York Liao*
 James Lee Goon Nam*
 Professor Charles Kao Kuen**
 Anthony Lui Chi Shing**

* Non-Executive Directors

** Independent Non-Executive Directors

In accordance with the Bye-laws of the Company, Dr York Liao and Anthony Lui Chi Shing shall retire from office by rotation and, are eligible for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN SHARES

The Directors who held office at 31 December 2001 had the following interests in the issued share capital of the Company and its subsidiaries at that date as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"):

(a) Interests in the Company

	Shares of HK\$0.25 each		
	Personal interests	Family interests	Corporate interests
Varitronix International Limited			
Dr Chang Chu Cheng	20,897	–	68,272,268 (note 1)
Dr Yan Sze Kwan	10,371,072	–	–
Chung Shun Ming	4,331,036	–	–
Kwok Siu Kwan	2,112,959	–	–
Dr York Liao	33,575,066	1,129,857	–
James Lee Goon Nam	–	–	4,124,072 (note 2)

Notes:

1. A family trust of Dr Chang Chu Cheng and his wife, Madam Iling Sieh, is the beneficial owner of the issued share capital of Colville Group Limited which holds 68,272,268 shares of the Company.
2. Mr James Lee Goon Nam is the sole beneficial owner of the entire share capital of Pressman Holdings Limited which holds 4,124,072 shares of the Company.

DIRECTORS' INTERESTS IN SHARES (continued)

(b) Interests in subsidiaries

	Non-voting deferred shares of HK\$1,000 each in Varitronix Limited	Non-voting deferred shares of HK\$100 each in Polysources Properties Limited
Dr Chang Chu Cheng	960	78
Dr Yan Sze Kwan	123	10
Chung Shun Ming*	50	8
Kwok Siu Kwan	50	4
Dr York Liao	492	40
James Lee Goon Nam	123	10
	<u>1,798</u>	<u>150</u>

* Mr Chung Shun Ming holds 4 non-voting deferred shares in Polysources Properties Limited in trust for all non-voting deferred shareholders of that company.

DIRECTORS' SERVICE CONTRACTS

Drs Chang Chu Cheng and Yan Sze Kwan and Messrs Chung Shun Ming and Kwok Siu Kwan have entered into management agreements with the Company which may be terminated by either party to the agreements at three months' notice.

Non-Executive Directors are appointed for a period up to 31 December 2002 or such other date as agreed by the Non-Executive Directors and the Company.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its subsidiaries was a party, 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.

SHARE OPTION SCHEMES

The Company had a Share Option Scheme (“Old Scheme”) for the employees of the Group which was adopted on 6 June 1991, subsequently amended on 8 June 1999 and expired on 5 June 2001. The options are exercisable for a period of ten years following the date of grant. No option has been granted to or exercised by any director or employee under the Old Scheme during the year.

A new Share Option Scheme of the Company (“New Scheme”) was adopted on 22 June 2001 as an incentive to the Group’s employees. The directors of the Company are authorised, at their discretion, to invite any employee or director, including executive and non-executive directors of any company in the Group, to take up options to subscribe for shares at a price determined by the board and notified to each grantee and which will not be less than 80 percent of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) on the five trading days immediately preceding the date of offer of the option granted to such grantee or the nominal value of the shares, whichever is higher. The maximum entitlement of each employee is 25% of the aggregate of all shares subject to the Scheme. The options are exercisable for a period of up to ten years following the date of grant.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the New Scheme may not exceed 10 percent of the issued share capital of the Company, excluding any shares issued on exercise of options from time to time. The New Scheme will remain in force until 21 June 2006.

The share options granted are not recognised in the financial statements until they are exercised. The weighted average value per option granted in 2001 estimated at 30 August 2001, the date of grant, using the Black-Scholes pricing model was HK\$2.71. The weighted average assumptions used are as follows:

2001

Risk-free interest rate	5.72%
Expected life (in years)	10
Volatility	57.52

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company’s share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

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 Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEMES *(continued)*

	Date granted	Number of options at 1 January 2001	Granted during the year	Options lapsed during the year	Options cancelled during the year
Director					
Kwok Siu Kwan	1 January 1997	400,000	–	(400,000)	–
	1 January 1998	400,000	–	–	–
	9 June 1999	150,000	–	–	–
Employees					
	1 January 1997	518,500	–	(473,500)	(45,000)
	1 January 1998	1,204,000	–	(10,000)	(54,500)
	9 June 1999	492,750	–	–	(20,000)
	1 June 2000	827,000	–	–	(47,000)
	30 August 2001	–	1,033,000	–	(30,000)
		<u>3,992,250</u>	<u>1,033,000</u>	<u>(883,500)</u>	<u>(196,500)</u>

Notes:

1. The total number of shares available for issue under the Share Option Schemes at 31 December 2001 represents 1.25% of the issued share capital of the Company at that date.
2. The consideration paid by each employee for the options granted was HK\$1.
3. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$5.07.

Report of the Directors *(continued)*

Options exercised during the year (Note 3)	Number of options at 31 December 2001	Exercisable period	Price per share to be paid on exercise of option	Market value per share at date of grant of options
–	–	1 January 1999 to 31 December 2001	11.40	14.00
–	400,000	1 January 2000 to 31 December 2002	10.55	13.20
–	150,000	9 July 1999 to 8 July 2009	10.90	15.00
–	–	1 January 1999 to 31 December 2001	11.40	14.00
–	1,139,500	1 January 2000 to 31 December 2002	10.55	13.20
–	472,750	9 July 1999 to 8 July 2009	10.90	15.00
–	780,000	1 July 2000 to 30 June 2010	11.30	13.40
(153,000)	850,000	30 August 2001 to 29 August 2011	3.06	3.68
<u>(153,000)</u>	<u>3,792,250</u>			

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

Other than Directors of the Company, no person or corporation had any interest in the share capital of the Company as recorded in the registers required to be kept under Section 16(1) of the SDI Ordinance.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the law in Bermuda.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans, overdrafts and other borrowings of the Group at 31 December 2001 are set out in notes 21 and 23 on the financial statements.

PROPERTIES

Particulars of the properties held by the Group are shown on pages 66 and 67 of the annual report.

FIVE YEAR SUMMARY

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

CONNECTED TRANSACTIONS

It was announced on 24 April 2001 that Varitronix (B.V.I.) Limited, a wholly-owned subsidiary of the Company had conditionally agreed to acquire the remaining minority interests in Varitronix (Malaysia) Sdn. Bhd., being the Company's subsidiary in Malaysia, in consideration of which the Company issued an aggregate of 7,112,313 shares of the Company. This transaction was approved at a special general meeting on 22 June 2001.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company repurchased 100,000 shares of the Company through the Stock Exchange during July 2001 at prices ranging between HK\$3.625 and HK\$3.675 per share for an aggregate price of HK\$365,000. All the shares were cancelled upon repurchase and accordingly the issued share capital was reduced by the nominal value of these shares. The premium on repurchase was charged to share premium.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2001.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules.

AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the board

Peter Lo Chi Lik

Secretary

Hong Kong, 18 April 2002