

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 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries comprise the manufacture and sale of electronic and related components and parts (comprising keypads, synthetic rubber and plastic parts and components and liquid crystal displays ("LCD")), and the design, manufacture and sale of electronic consumer products (comprising electronic calculators, alarm clocks and LCD products). There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 59.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2001.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 60. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the Group's fixed assets are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

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

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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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie as computed in accordance with The Companies Act 1981 of Bermuda (as amended) amounted to HK\$41,539,710 (2000: HK\$38,869,998). In addition, the Company's share premium account, in the amount of HK\$49,611,281 (2000: HK\$49,611,281) may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 28.6% (2000: 28.8%) of the Group's total turnover for the year and the sales to the largest customer included therein amounted to approximately 8.2% (2000: 9.2%).

Purchases made from the Group's five largest suppliers accounted for approximately 28.3% (2000: 36.7%) of the Group's total purchases for the year and the purchases from the largest supplier included therein amounted to approximately 7.6% (2000: 14.6%).

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Lai Pei Wor
Chan Yau Wah
Wong Kwong Ming
Chung Yik Cheung, Raymond

Independent non-executive directors:

Tsao Kwang Yung, Peter
Kung Fan Cheong

In accordance with bye-law 87 of the Company's bye-laws, Tsao Kwang Yung, Peter, will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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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 from 1 January 2000. The service contract is terminable by either party upon giving six months' written notice.

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 of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements, no director had a material interest in any contract of significance to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors in the share capital of the Company or 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"), or otherwise notified to the Company and the Stock Exchange of Hong Kong (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Ordinary shares of the Company

Name of director	Nature of interest	Number of shares
Lai Pei Wor	Other*	97,242,000
Chan Yau Wah	Personal	5,200,000
Wong Kwong Ming	Personal	3,406,000
Chung Yik Cheung, Raymond	Personal	152,000

* Details of Lai Pei Wor's other interests are set out in the "Substantial shareholders" section below.

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, chief executives or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, 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, 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.

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SHARE OPTION SCHEME

The Company operates a share option scheme (the “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 Scheme include employees of the Company and/or any of its subsidiaries, including executive directors of any of such companies. The Scheme became effective on 4 December 1996 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted (together with options exercised and then outstanding) under the Scheme may not exceed 10% of the then issued share capital of the Company from time to time, excluding, for this purpose, shares issued on exercise of options under the Scheme. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 17,300,000, which represented approximately 6.9% of the Company’s shares in issue as at that date. No option may be granted to any one person which if exercised in full would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25 per cent 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, with a consideration of HK\$1.00 being payable by the grantee.

An option may be exercised in accordance with the terms of the Scheme at any time during the three-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the three-year period or the tenth anniversary of the date on which the Scheme is adopted by resolution of the Company in general meeting, whichever is the earlier.

The exercise price of the share options is at a price equal to the higher of the nominal value of shares and not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the grant of options.

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SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's share at grant date of options*** HK\$
	At 1 January 2001	Granted during the year	Lapsed during the year	Cancelled during the year	At 31 December 2001				
Directors									
Lai Pei Wor	1,500,000	-	(1,500,000)	-	-	8-4-1998	8-10-1998 to 7-10-2001	0.315	-
	-	2,500,000	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.160	0.200
	1,500,000	2,500,000	(1,500,000)	-	2,500,000				
Chan Yau Wah	1,200,000	-	(1,200,000)	-	-	8-4-1998	8-10-1998 to 7-10-2001	0.315	-
	-	2,500,000	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.160	0.200
	1,200,000	2,500,000	(1,200,000)	-	2,500,000				
Wong Kwong Ming	1,000,000	-	(1,000,000)	-	-	8-4-1998	8-10-1998 to 7-10-2001	0.315	-
	-	1,300,000	-	-	1,300,000	12-1-2001	12-7-2001 to 11-7-2004	0.160	0.200
	1,000,000	1,300,000	(1,000,000)	-	1,300,000				
Chung Yik Cheung, Raymond	800,000	-	(800,000)	-	-	8-4-1998	8-10-1998 to 7-10-2001	0.315	-
	-	2,500,000	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.160	0.200
	800,000	2,500,000	(800,000)	-	2,500,000				
Other employees									
In aggregate	2,200,000	-	(2,200,000)	-	-	28-8-1997	1-3-1998 to 31-3-2001	0.800	-
	-	8,500,000	-	-	8,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.160	0.200
	2,200,000	8,500,000	(2,200,000)	-	8,500,000				
	6,700,000	17,300,000	(6,700,000)	-	17,300,000				

* The vesting period of the share options is from the date of the 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.

*** 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.

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SHARE OPTION SCHEME (Continued)

Summary details of the Company's share option scheme are also set out in note 29 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 or which lapse prior to their exercise date are deleted from the register of outstanding options.

The directors are of the view that the value of the theoretical value of the share options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained subjected to a number of theoretical basis and speculative assumptions. Accordingly, the directors believed that any calculation of the value of options will not be meaning and may be misleading to shareholders in the circumstances.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interests of 10% or more in 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:

Name	Number of shares
Celaya Limited (Note a)	97,242,000
Ansbacher (BVI) Limited (Note b)	97,242,000

Notes:

- (a) Celaya Limited holds 97,242,000 shares in its capacity as trustee of The Lai Family Unit Trust, of which all units are held by Ansbacher (BVI) Limited in its capacity as trustee of The Lai Family Trust, a discretionary trust of which Lai Pak Hung and Lai Yee Man (both children of Lai Pei Wor and under the age of 18) and Chan Yuk Lin (wife of Lai Pei Wor) are discretionary objects.
- (b) The shares referred to herein relate to the same parcel of shares referred to in note (a) above.

Save as disclosed above, the Company has not been notified of any other interest representing 10% or more in the Company's issued share capital as at 31 December 2001.

CONNECTED TRANSACTIONS

During the year, the Group had no connected transactions as defined under the Hong Kong Listing Rules.

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CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code. Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company’s by-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of 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

Lai Pei Wor

Chairman

Hong Kong, 26 April 2002