



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 Group's principal activities consisted of the design, development, manufacture and sale of electronic products, the manufacture and sale of printed circuit boards, the trading and distribution of electronic components and parts, the trading of listed equity investments and the provision of loan financing. There were no changes in the nature of the Group's principal activities during the year.

Subsequent to the balance sheet date, the Group acquired 73.5% equity interest in Swank International Manufacturing Company Limited. The principal activities of Swank consisted of the design, manufacture and marketing of frames, sunglasses and lenses. Details of this post balance sheet event are set out in note 32(a) to the financial statements.

SEGMENTAL 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 profit for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 68.

The directors do not recommend the payment of any dividend in respect of the year.



Report of the Directors (Continued)

SUMMARY FINANCIAL INFORMATION

A summary of the results of the Group for the last five financial reporting years/period and of its assets and liabilities at the respective financial reporting year/period end dates, as extracted from the published audited financial statements of the Group, is set out below.

	Year ended 31 December 2001 HK\$'000	Year ended 31 December 2000 HK\$'000	Year ended 31 December 1999 HK\$'000	Year ended 31 December 1998 HK\$'000	14 month period from 1 November 1996 to 31 December 1997 HK\$'000
RESULTS					
TURNOVER	544,174	659,807	601,609	483,557	557,056
PROFIT/(LOSS)					
BEFORE TAX	28,462	36,943	(38,603)	(27,470)	13,737
Tax	(3,079)	(5,424)	(6,265)	988	(2,715)
PROFIT/(LOSS)					
BEFORE MINORITY INTERESTS	25,383	31,519	(44,868)	(26,482)	11,022
Minority interests	5,734	976	(30)	(4)	5
NET PROFIT/(LOSS)					
ATTRIBUTABLE TO SHAREHOLDERS	31,117	32,495	(44,898)	(26,486)	11,027



Report of the Directors (Continued)

SUMMARY FINANCIAL INFORMATION (Continued)

	As at 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
ASSETS AND LIABILITIES					
FIXED ASSETS	138,811	135,800	132,476	185,810	192,164
PREPAID RENTAL	4,851	5,588	6,324	7,061	7,798
RENTAL DEPOSITS	517	397	—	—	—
DEFERRED PRODUCT DEVELOPMENT COSTS	4,459	4,131	3,684	5,829	3,954
DEFERRED PRE-OPERATING EXPENSES	—	—	—	3,363	4,466
INTERESTS IN ASSOCIATES	—	—	42	23	—
CURRENT ASSETS	575,477	421,444	252,277	200,805	258,862
TOTAL ASSETS	724,115	567,360	394,803	402,891	467,244
CURRENT LIABILITIES	87,647	146,674	191,152	140,960	167,173
LONG TERM BANK BORROWINGS	—	—	—	13,247	16,944
DEFERRED TAX	1,433	1,433	600	—	1,196
TOTAL LIABILITIES	89,080	148,107	191,752	154,207	185,313
MINORITY INTERESTS	36,443	42,177	8,836	8,806	8,802
NET ASSETS	598,592	377,076	194,215	239,878	273,129

FIXED ASSETS

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



SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 26 to the financial statements.

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus of HK\$84,917,000 is distributable to shareholders in certain circumstances. In addition, the Company's share premium in the amount of HK\$192,518,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 37% of the total sales for the year and sales to the largest customer included therein amounted to 20% of the total sales. Purchases from the Group's five largest suppliers accounted for approximately 42% of the total purchases for the year and purchases from the largest supplier included therein amounted to 11% of the total purchases.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor those shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.



Report of the Directors (Continued)

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Yau Tak Wah, Paul (*Chairman*)

Mr. Tam Ping Wah

Ms. Louie Mei Po

Ms. Wong Shin Ling, Irene

Mr. Tam Wing Kin

Independent non-executive directors:

Mr. Ng Wai Hung

Mr. Cheung Chung Leung, Richard

In accordance with clause 87 of the Company's bye-laws, Ms. Louie Mei Po and Mr. Cheung Chung Leung, Richard will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Yau Tak Wah, Paul and Mr. Tam Ping Wah have entered into service contracts with the Company for a fixed term of three years from 26 April 2000 to 25 April 2003, which thereafter are terminable by either party upon the giving of six months' notice.

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



Report of the Directors (Continued)

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors in the listed securities of the Company 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:

Director	Notes	Nature of interest	Number of shares
Mr. Yau Tak Wah, Paul	1	Corporate	148,474,000
Mr. Tam Ping Wah	2	Corporate	80,000

Notes:

1. These shares were held through Pacific Shore Profits Limited, a company beneficially owned by Mr. Yau Tak Wah, Paul.
2. These shares were held through Strong Trend International Limited, a company beneficially owned by Mr. Tam Ping Wah.

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

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose for providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme included full-time employees (including executive directors) of the Group. The Scheme became effective on 21 July 1995 and, unless otherwise amended or altered, will remain in force for a period of 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, up to 10% of the shares of the Company in issue at any time. As at 31 December 2001, the number of shares issuable under share options granted under the Scheme was 91,500,000, which represented approximately 3.4% of the shares of the Company in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares issuable under the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised under the Scheme at any time during a period not exceeding 3 years after the date when the option is granted and expiring on the last date of such period.



Report of the Directors (Continued)

SHARE OPTION SCHEME (Continued)

The exercise price of the share option is determinable by the directors at their discretion based on the higher of 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the offer date, and the nominal value of the shares of the Company.

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

Directors	Date of grant of share options	Exercise period of share options	Number of share options outstanding at 1 January 2001 '000	Number of share options outstanding at 31 December 2001 '000*	Exercise price of share options at 1 January 2001 HK\$	Exercise price of share options at 31 December 2001 HK\$*
Ms. Louie Mei Po	11/2/2000	11/8/2000– 10/8/2003	7,900	23,700	0.680	0.227
	20/3/2000	20/9/2000– 19/9/2003	6,600	19,800	0.488	0.163
	2/5/2000	2/11/2000– 1/11/2003	3,000	9,000	0.270	0.090
Ms. Wong Shin Ling, Irene	20/3/2000	20/9/2000– 19/9/2003	3,600	10,800	0.488	0.163
	2/5/2000	2/11/2000– 1/11/2003	6,400	19,200	0.270	0.090
Mr. Tam Ping Wah	2/5/2000	2/11/2000– 1/11/2003	3,000	9,000	0.270	0.090
			30,500	91,500		

* Pursuant to rights issue of shares on 12 November 2001, the number of share options and the exercise price were adjusted on the basis of two rights shares for every one share held. Further details are set out in note 26 to the financial statements.

None of the share options was exercised, granted, cancelled or lapsed during the year.

Summary details of the Company's share option scheme are also set out in note 26 to the financial statements.



Report of the Directors (Continued)

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interest of 10% or more in the issued share capital of the Company was 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 ordinary shares held	Percentage of issued share capital
<u>Winspark Venture Limited (<i>Note</i>)</u>	<u>1,648,359,630</u>	<u>61.44%</u>

Note: The entire issued share capital of Winspark Venture Limited is beneficially owned by Mr. Chan Yuen Ming.

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.

CONNECTED PARTY TRANSACTIONS

Details of the connected party transactions are set out in note 31 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 32 to the financial statements.



Report of the Directors (Continued)

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, 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.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules 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, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's bye-laws.

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

Yau Tak Wah, Paul

Chairman

Hong Kong

23 April 2002