

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 and associates consisted of the design, development, manufacture and distribution of electronic products and components and provision of financial services. There were no change in the nature of these activities during the year.

SEGMENTED INFORMATION

Details of turnover and segmented information are set out in notes 5 and 35 to the financial statements.

RESULTS AND DIVIDENDS

The Group's results 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 32 to 84.

An interim dividend of HK8 cents per ordinary share was paid on 31 October 2001. The directors recommend, subject to compliance with regulatory requirements, if any, a dividend by way of a distribution in specie of one share of Sansui Electric Co., Ltd. ("SEC"), a company listed on the First Section of the Tokyo Stock Exchange, for every two shares of the Company being held by the shareholder on the register of members on 11 June 2002. The market value at close of business on 24 April 2002 of SEC was 11 Yen per share which equates to HK33 cents per share.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year covered by the annual report. 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 Bye-Laws.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below:

RESULTS

	2001	Year ended 31 December			
		2000	1999	1998	1997
	HK\$	HK\$	HK\$	HK\$	HK\$
	million	million	million	million	million
TURNOVER	7,818	8,309	5,757	4,598	7,731
PROFIT/(LOSS) BEFORE TAX	532	(350)	376	178	240
Tax	(4)	(13)	(11)	(5)	(10)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	528	(363)	365	173	230
Minority interests	(71)	(218)	(174)	(64)	(93)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS (RESTATED)		(581)	191	109	137
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS (AS PREVIOUSLY REPORTED)	457	406	195	120	191

SUMMARY FINANCIAL INFORMATION *(continued)*

ASSETS AND LIABILITIES

	31 December				
	(Restated) 2001 HK\$ million	(Restated) 2000 HK\$ million	(Restated) 1999 HK\$ million	(Restated) 1998 HK\$ million	(Restated) 1997 HK\$ million
NON-CURRENT ASSETS	2,251	2,394	2,227	2,030	1,771
CURRENT ASSETS	3,593	3,964	3,296	1,363	2,071
TOTAL ASSETS	5,844	6,358	5,523	3,393	3,842
CURRENT LIABILITIES	2,819	3,697	3,073	1,370	1,812
NON-CURRENT LIABILITIES	199	50	53	179	235
TOTAL LIABILITIES	3,018	3,747	3,126	1,549	2,047
	2,826	2,611	2,397	1,844	1,795
SHARE CAPITAL AND RESERVES	2,074	1,549	1,692	1,429	1,430
MINORITY INTERESTS	752	1,062	705	415	365
	2,826	2,611	2,397	1,844	1,795

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 13 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in notes 15, 16 and 36 to the financial statements, respectively.

SHARE CAPITAL, SHARE PREMIUM, OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share premium, options and warrants are set out in notes 26 and 27 to the financial statements.

BORROWINGS

Details of the borrowings of the Company and the Group are set out in notes 23 and 33 to the financial statements.

REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for cash distribution to shareholders, calculated under the provisions of the Companies Act 1981 of Bermuda amounted to HK\$1,347 million.

The Company's share premium account 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 largest customer and five largest customers accounted for approximately 11% and 38%, respectively, of the Group's total turnover for the year.

Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 8% and 31%, respectively, of the Group's total purchases for the year.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in the Group's major customers and suppliers.

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in note 7 to the financial statements.

DIRECTORS

The directors of the Company during the year were:

Mrs. Christine L. S. Asprey	
Mr. Michael A. B. Binney	(appointed on 27 November 2001)
Mr. Michael K. K. Cheung	(resigned on 28 February 2001)
Ms. Anita S. C. Chiu	
Mr. Alain A. Eman	(resigned on 31 December 2001)
Mr. Christopher W. Ho	
Mr. Duncan T. K. Hon	(resigned on 27 November 2001)
Mr. C. F. Lam	
Mr. Paul K. F. Law	
Mr. Adrian C. C. Ma	
Mr. Terence P. Scandrett	
Mr. Herbert H. K. Tsoi	
Mr. Samuel K. Yuen	

DIRECTORS (continued)

In accordance with Bye-Law 99 and 102 (6), Mrs. Christine L. S. Asprey, Mr. Michael A. B. Binney, Mr. Adrian C. C. Ma and Mr. Herbert H. K. Tsoi will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest, either direct or indirect, in any significant contract to which the Company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

There were no unexpired service contracts which are not determinable by the Company within one year without compensation, other than statutory payments, in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN SHARE CAPITAL

The interests of the directors and their associates in the equity or debt securities of the Company and its associated corporations as required to be recorded in the Register of Directors' Interests maintained pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") at the balance sheet date are set out below:

Directors	Number of issued ordinary shares of HK\$0.10 each in the Company	
	Personal interests	Corporate interests
Mr. Christopher W. Ho	–	295,067,713*
Mr. C. F. Lam	303,600	–
Mr. Adrian C. C. Ma	78,000	–

* Mr. Christopher W. Ho had 100% deemed beneficial interests in The Grande International Holdings Limited ("GIHL") which owned 295,067,713 ordinary shares in the Company through its wholly owned subsidiary, Barrican Investments Corporation ("BIC").

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the share option scheme adopted by the Company, the board of directors of the Company may grant options to eligible employees of the Group, including executive directors, to subscribe for shares in the Company. Details of the share option scheme are set out in note 26 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

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 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.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Name	Age	Position held	Number of years of service	Business experience
Board of Directors				
Mr. Christopher W. Ho	51	President and Group Chief Executive	11	Manufacturing, international trading and corporate finance
Mrs. Christine L. S. Asprey	53	Executive Director	4	International marketing, market research and industrial affairs
Mr. Michael A. B. Binney (appointed on 27 Nov 2001)	43	Executive Director, Chief Financial Officer and Company Secretary	12	Finance, accounting and systems
Mr. C. F. Lam	52	Executive Director	27	Computer magnetic media industry
Mr. Paul K. F. Law	45	Executive Director	10	Consumer electronics industry
Mr. Adrian C. C. Ma	57	Executive Director	18	Consumer electronics industry
Mr. Samuel K. Yuen	47	Executive Director and Deputy Chief Financial Officer	10	Finance, accounting and taxation
Independent Directors				
Mr. Herbert H. K. Tsoi	51	Non-executive Director	4	Solicitor
Mr. Terence P. Scandrett	59	Non-executive Director	8	Finance, accounting and systems
Ms. Anita S. C. Chiu	45	Non-executive Director	3	Architect

Mr. Christopher W. Ho and Mrs. Christine L. S. Asprey are brother and sister.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF SENIOR MANAGEMENT STAFF

Name	Age	Position held	Number of years of service	Business experience
Electronics Manufacturing Services Division				
Ms. Anissa Y. Y. Choi	47	Deputy Managing Director	21	Consumer electronics industry
Mr. Bill J. H. Chou	41	Deputy Managing Director	17	Consumer electronics industry
Magnetic Media Division				
Mr. K. T. Fok	41	Director – Engineering and Operations	19	Computer industry
Mr. Chau Lung	47	Director – Development	19	Computer industry
Branded Distribution Division				
Mr. Thomas W. Tang	50	Managing Director	1	Sales and marketing
Mr. Takeshi Nakamichi	52	Deputy Managing Director	30	Product research and development
Mr. Christopher T. O. Chiang	45	Executive Director	3	Sales and marketing
Mr. Ata Malik	55	Executive Director	29	Sales and marketing
Ms. Ann Leong	43	Regional Director	1	Sales and marketing

REPORT OF THE DIRECTORS

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF SENIOR MANAGEMENT STAFF

(continued)

Name	Age	Position held	Number of years of service	Business experience
Financial Services Division				
Mr. Tony W. M. Lam	37	Assistant Director - Treasury	10	Banking and treasury
Ms. Sophia C. M. Cheng	34	Assistant Director - Corporate Finance	2	Audit, accounting, corporate finance and restructuring
Legal				
Ms. Ruby Y. K. Lee	40	Group Legal Counsel	8	Solicitor

SUBSTANTIAL SHAREHOLDERS

Pursuant to Section 16(1) of the SDI Ordinance, no persons other than Mr. Christopher W. Ho, GIHL and BIC, whose interests are disclosed in “Directors’ Interests in Share Capital” above, had registered an interest in the Company’s issued shares at 31 December 2001 amounting to 10% or more of the ordinary shares in issue.

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Group as at 31 December 2001 was approximately 13,590. Employees are remunerated according to the nature of the job and market conditions.

PURCHASE, SALE OR REDEMPTION OF OWN LISTED 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 37 to the financial statements.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS

The Group, through its wholly owned subsidiary, Sheer Profit Corporation (“SPC”), entered into an agreement on 2 November 2001 with Nakamichi Electronics Inc (“NEI”), a 45% indirectly owned associate of the Company, under which SPC would acquire from NEI 30.97% of the issued share capital of Lafe Technology Ltd (“LTL”), at an aggregate consideration of US\$25 million. At the date of the agreement, Lafe International Holdings Ltd (“LIHL”) was a subsidiary of the Company, and was owned approximately 50% by the Company and its nominees and approximately 50% by NEI, which in turn owns approximately 62% of the issued share capital of LTL. Since LIHL is a subsidiary of the Company and NEI is a substantial shareholder of LIHL, NEI is a connected person of the Company under the Listing Rules.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

Advance to an entity

As disclosed in last year’s annual report, Omnitech Group Limited (formerly O2New Technology Limited) (“O2New”), a then subsidiary of the Company, entered into a loan agreement in which O2New agreed to extend an on demand revolving loan facility of up to HK\$630 million to the Akai Group including Akai Electric Co., Ltd. for the attempted rescue and restructuring thereof. On 9 October 2001, the Company accepted a Promissory Note of HK\$600 million issued by Prosperous Finance Limited (“PFL”), a wholly owned subsidiary of O2New, as part settlement of the advance receivable from O2New. The only substantial asset of PFL was the “Akai” trademarks which were held by a wholly owned subsidiary. As at 31 December 2001, the advance receivable from O2New and PFL in relation to the Akai rescue amounted to HK\$618 million (2000: HK\$425 million).

Subsequently, on 21 January 2002, O2New issued 280 million new shares at HK\$0.065 per share to a subsidiary of the Company.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company has established an Audit Committee.

The members of the Audit Committee during the year were:

Independent non-executive directors

Mr. Herbert H. K. Tsoi

Ms. Anita S. C. Chiu

The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

AUDITORS

Messrs. Deloitte Touche Tohmatsu 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

Christopher W. Ho

President and Group Chief Executive

Hong Kong
25 April 2002