

Report of the Directors

The directors present their annual report and the audited financial statements of the Company and of the Group for the year ended 30 September 2002.

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.

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 30 September 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 September 2002 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 23 to 68.

The directors recommend the payment of a final dividend of 1 cent per ordinary share in respect of the year, to shareholders on the register of members on 24 February 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 11 to the financial statements.

Report of the Directors

SUMMARY OF 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 four financial years, respectively, which has been adjusted for the effects of the retrospective changes in the accounting policy affecting dividends as detailed in note 2 to the financial statements.

RESULTS	Year ended 30 September				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000 (Note)
Turnover	693,260	661,622	1,094,273	1,178,783	845,758
Profit before tax	33,789	8,044	107,807	297,207	242,395
Tax	(3,570)	(2,591)	(6,571)	(26,427)	(26,500)
Net profit from ordinary activities attributable to shareholders	30,219	5,453	101,236	270,780	215,895
ASSETS AND LIABILITIES	As at 30 September				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000 (restated)	
Non-current assets	490,773	479,716	391,159	324,670	
Current assets	622,379	620,766	726,806	636,058	
TOTAL ASSETS	1,113,152	1,100,482	1,117,965	960,728	
Current liabilities	241,135	293,069	251,560	254,156	
Non-current liabilities	11,003	537	75,741	—	
TOTAL LIABILITIES	252,138	293,606	327,301	254,156	
NET ASSETS	861,014	806,876	790,664	706,572	

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION (continued)

Note:

The summary of the combined results for the year ended 30 September 1998 is 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 the financial year. Accordingly, the combined results of the Group for the year ended 30 September 1998 include the results of the Company and its subsidiaries with effect from 1 October 1997 or since their respective dates of incorporation, where this is a shorter period.

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 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons therefor, and details of the share option scheme of the Company are set out in note 25 to the financial statements.

PRE-EMPTIVE RIGHTS

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company repurchased in aggregate 4,854,000 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 details of these transactions are as follows:

Month of repurchase	Number of ordinary shares repurchased '000	Price paid per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
July 2002	2,288	0.285	0.250	610
August 2002	2,566	0.265	0.244	654
	<u>4,854</u>			<u>1,264</u>

Report of the Directors

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

The Repurchase Shares were cancelled during the year 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\$778,000 was charged to the share premium account. An amount of HK\$486,000, equivalent to the par value of the shares cancelled, was transferred from the retained profits of the Company to the capital redemption reserve.

The repurchases of the Company's shares during the year were 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 25 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30 September 2002, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus account and retained profits, amounted to HK\$350,608,000. In accordance with the Companies Act of 1981 of Bermuda (as amended), the contributed surplus may be distributed in certain circumstances. In addition, the Company's share premium account of HK\$177,325,000 as at 30 September 2002 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 27% of the Group's total sales for the year and sales to the Group's largest customer accounted for 9% of the Group's total sales for the year. Purchases from the Group's five largest suppliers accounted for 21% of the Group's total purchases for the year and purchases from the Group's largest supplier accounted for 11% of the Group's total purchases for the year.

As far as the directors are aware, neither the directors of the Company or their associates (as defined in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules")), 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 suppliers.

Report of the Directors

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ms. Wong King Ching, Helen (<i>Chairman</i>)	
Ms. Wong Choi Kam (<i>Deputy chairman</i>)	
Mr. Wong Choi Ping (<i>Deputy chairman</i>)	(appointed on 9 May 2002)
Mr. Leung Chi Fai	
Ms. Wong King Man	
Ms. Lam Kam Chun	(resigned on 9 May 2002)

Non-executive directors:

Mr. So Day Wing*	
Mr. Wong Kim Seong	
Mr. Wong Kun Kim*	(appointed on 19 September 2002)
Ms. Choy Hok Man, Constance*	(appointed on 2 May 2002 and resigned on 6 September 2002)
Mr. Chiu Pak Yue, Leo*	(resigned on 2 May 2002)
Mr. Wong Kai Tung, Simon*	(resigned on 2 May 2002)

* *Independent non-executive directors*

In accordance with clauses 111 and 115 of the Company's bye-laws, Mr. Wong Choi Ping and Mr. Wong Kun Kim will retire and, being eligible, will 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 and Mr. Wong Choi Ping, entered into a service contract with the Company for an initial term of three years commencing from 1 August 1999 which continues thereafter until terminated by not less than three months' notice in writing served by either party on the other. The Company has extended the service contracts with these executive directors until 31 July 2003.

Apart from the foregoing, 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.

The non-executive directors are subject to retirement by rotation in accordance with the Company's bye-laws.

Report of the Directors

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.

DIRECTORS' INTERESTS IN SECURITIES

At 30 September 2002, 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"), were as follows:

Name of director	Nature of interest	Number of shares held
Executive directors:		
Ms. Wong King Ching, Helen	Personal	200,000
	Corporate (Note 1)	400,000,000
Ms. Wong Choi Kam	Personal	500,000
	Corporate (Note 2)	100,000,000
Mr. Wong Choi Ping	Corporate (Note 3)	100,000,000
Ms. Wong King Man	Corporate (Note 1)	400,000,000
Non-executive director:		
Mr. Wong Kim Seong	Personal	50,000,000

Notes:

- These shares are beneficially owned by Farnell Profits Limited, the entire issued share capital of which was previously held by the late Mr. Wong Choi Fung ("Mr. Wong") 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 will not be ascertained until completion of the administration of estate of the late Mr. Wong.
- These shares are held by Atworth Profits Limited, a company beneficially owned by Ms. Wong Choi Kam.
- These shares are held by Notchino Investment Inc., a company beneficially owned by Mr. Wong Choi Ping.

Save as 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.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' interests in securities" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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 the Group's full-time employees, including the Company's executive directors. The Scheme became effective on 3 September 1999 and, unless otherwise cancelled or amended, 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, to 10% of the shares of the Company in issue at any time. At 30 September 2002, the number of shares issuable under share options granted under the Scheme was 39,550,000, which represented approximately 3.9% of the Company's shares 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 maximum number of shares that may be issued pursuant to the Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing price of shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the share options; and (ii) the nominal value of the shares of the Company.

Report of the Directors

SHARE OPTION SCHEME (continued)

Pursuant to the amendments (the "New Rules") to Chapter 17 of the Listing Rules on the Hong Kong Stock Exchange, any options granted after 1 September 2001 must comply with the provisions of the New Rules. If the Company wishes to grant options to its directors or other eligible participants in the future, a new share option scheme in compliance with the New Rules is to be approved and adopted by the shareholders of the Company in a general meeting. A new share option scheme in compliance with the New Rules is proposed to be adopted at the forthcoming annual general meeting. Details of the proposed new share option scheme are set out in the circular sent to shareholders with this Annual Report.

No share options were exercised, granted or cancelled, or lapsed, during the year and up to the date of this report.

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

Name or category of participant	Number of share options at 1 October 2001 and at 30 September 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
Directors				
Ms. Wong Choi Kam	6,000,000	25 October 1999	25 October 1999 to 24 October 2009	1.20
Ms. Wong King Ching, Helen	1,500,000	25 October 1999	25 October 1999 to 24 October 2009	1.20
Mr. Leung Chi Fai	1,050,000	25 October 1999	25 October 1999 to 24 October 2009	1.20
	<u>8,550,000</u>			
Other employees in aggregate	31,000,000	25 October 1999	25 October 1999 to 24 October 2009	1.20
	<u>39,550,000</u>			

Summary details of the Company's share option scheme are also set out in note 25 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 prior to their exercise date are deleted from the register of outstanding options.

Report of the Directors

CONNECTED TRANSACTIONS

The directors have reviewed the connected transactions as defined under the Listing Rules, as set out in note 31 to the financial statements, and confirmed that such transactions were 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;
- (ii) Details of the transactions were set out in the Company's annual report and financial statements as set out in Rule 14.25(1)(A) to (D) of the Listing Rules;
- (iii) The auditors of the Company have reviewed the transactions and confirmed that:
 - (a) the transactions were approved by the directors;
 - (b) the transactions were entered into in accordance with the terms of the agreement relating to the transactions in question;
 - (c) the transactions were 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 on did not exceed 3% of the combined or consolidated turnover of the Group as shown in its audited financial statements.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, as at 30 September 2002, other than the interests disclosed under the heading "Directors' interests in securities" above, 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.

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 throughout the year, except that the independent non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's by-laws.

AUDIT COMMITTEE

The Company's Audit Committee was set up on 6 August 1999 with written terms of reference for the purposes of reviewing and providing supervision over 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 Kun Kim and Mr. So Day Wing, the two independent non-executive directors of the Company. The Group's financial statements for the year ended 30 September 2002 have been reviewed by the Audit Committee, who are of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made.

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 King Ching, Helen

Chairman

Hong Kong

23 January 2003