

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2002.

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 2002 are set out in note 14 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2002 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 20 to 54.

An interim dividend of 4.4 cents per share (2001: 6.5 cents per share) was paid on 28 November 2002. The directors now recommend the payment of a special dividend of 4.0 cents per share (2001: 4.0 cents per share) and a final dividend of 18.0 cents per share (2001: 2.5 cents per share) in respect of the year ended 31 December 2002.

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 on the exercise of share options and as a result of scrip dividends.

CHARITABLE DONATIONS

No donation was made by the Group during the year (2001: HK\$332,000).

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

James Lee Goon Nam*

Professor Charles Kao Kuen**

Anthony Lui Chi Shing**

Dr York Liao* (resigned on 1 June 2002)

* *Non-Executive Directors*

** *Independent Non-Executive Directors*

In accordance with the Bye-laws of the Company, Professor Charles Kao Kuen and Chung Shun Ming 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 2002 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 | Corporate interests |
| Varitronix International Limited | | |
| Dr Chang Chu Cheng | 21,445 | 68,386,479 <i>(note 1)</i> |
| Dr Yan Sze Kwan | 10,371,072 | – |
| Chung Shun Ming | 4,511,314 | – |
| Kwok Siu Kwan | 2,112,959 | – |
| James Lee Goon Nam | – | 4,166,978 <i>(note 2)</i> |

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 68,386,479 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 4,166,978 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 |
| James Lee Goon Nam | 123 | 10 |
| | <hr/> | <hr/> |
| | 1,306 | 110 |
| | <hr/> <hr/> | <hr/> <hr/> |

* 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 Chun 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 2003 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.

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 New Scheme will remain in force until 21 June 2006.

Further details of the Old Scheme and the New Scheme are set out in note 24 on the financial statements. 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 total number of shares available for issue under the Share Option Schemes at 31 December 2002 represents 2.19% of the issued share capital of the Company at that date.

The share options granted are not recognised in the financial statements until they are exercised. The weighted average value per option granted in 2002 estimated at the date of grant using the Black-Scholes pricing model was HK\$2.68 (2001: HK\$2.71). The weighted average assumptions used are as follows:

| | 2002 | 2001 |
|--------------------------|--------------|-------|
| Risk-free interest rate | 4.54% | 5.72% |
| Expected life (in years) | 10 | 10 |
| Volatility | 47.04 | 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.

REPORT OF THE DIRECTORS (Continued)

SHARE OPTION SCHEMES (Continued)

| | Date granted | Number of options at 1 January 2002 | Granted during the year | Options lapsed during the year | Options cancelled during the year | Options exercised during the year | Number of options at 31 December 2002 | Exercisable period | Price per share to be paid on exercise of option | Market value per share at date of grant of options | Market value per share on exercise of options | |
|------------------|-------------------|-------------------------------------|-------------------------|--------------------------------|-----------------------------------|-----------------------------------|---------------------------------------|--|--|--|---|--|
| <i>Director</i> | | | | | | | | | | | | |
| Chang Chu Cheng | 30 October 2002 | - | 1,000,000 | - | - | - | 1,000,000 | 31 October 2002 to 30 October 2012 | 4.605 | 4.35 | N/A | |
| Yan Sze Kwan | 30 October 2002 | - | 1,000,000 | - | - | - | 1,000,000 | 31 October 2002 to 30 October 2012 | 4.605 | 4.35 | N/A | |
| Chung Shun Ming | 30 October 2002 | - | 1,000,000 | - | - | - | 1,000,000 | 31 October 2002 to 30 October 2012 | 4.605 | 4.35 | N/A | |
| Kwok Siu Kwan | 1 January 1998 | 400,000 | - | (400,000) | - | - | - | 1 January 2000 to 31 December 2002 | 10.55 | 13.20 | N/A | |
| | 9 June 1999 | 150,000 | - | - | - | - | 150,000 | 9 July 1999 to 8 July 2009 | 10.90 | 15.00 | N/A | |
| | 30 October 2002 | - | 1,000,000 | - | - | - | 1,000,000 | 31 October 2002 to 30 October 2012 | 4.605 | 4.35 | N/A | |
| <i>Employees</i> | | | | | | | | | | | | |
| | 1 January 1998 | 1,139,500 | - | (1,096,500) | (43,000) | - | - | 1 January 2000 to 31 December 2002 | 10.55 | 13.20 | N/A | |
| | 9 June 1999 | 472,750 | - | - | (26,000) | - | 446,750 | 9 July 1999 to 8 July 2009 | 10.90 | 15.00 | N/A | |
| | 1 June 2000 | 780,000 | - | - | (47,000) | - | 733,000 | 1 July 2000 to 30 June 2010 | 11.30 | 13.40 | N/A | |
| | 30 August 2001 | 850,000 | - | - | (7,000) | (226,500) | 616,500 | 30 August 2001 to 29 August 2011 | 3.06 | 3.68 | 5.72 | |
| | 13 September 2002 | - | 724,500 | - | (7,000) | (6,000) | 711,500 | 13 September 2002 to 12 September 2012 | 3.905 | 3.85 | 4.65 | |
| | | <u>3,792,250</u> | <u>4,724,500</u> | <u>(1,496,500)</u> | <u>(130,000)</u> | <u>(232,500)</u> | <u>6,657,750</u> | | | | | |

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.

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 2002 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 56 and 57 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 55 of the annual report.

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

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 2002.

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 of Hong Kong Limited ("the Stock Exchange") in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

AUDITORS

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

By order of the board

Peter Lo Chi Lik

Secretary

Hong Kong, 3 April 2003