

# 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 2003.

## 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 components and parts, 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.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 19 to 67.

The directors do not recommend the payment of any dividends in respect of the year ended 31 December 2003.

## 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, is set out on page 68. 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 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 notes 30 and 31 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.

## **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 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

## **DISTRIBUTABLE RESERVES**

At 31 December 2003, 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\$51,503,966 (2002: HK\$50,387,631). In addition, the Company's share premium account, in the amount of HK\$49,761,281 (2002: 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 30.8% (2002: 31.7%) of the Group's total turnover for the year and the sales to the largest customer included therein amounted to approximately 7.7% (2002: 9.2%).

Purchases made from the Group's five largest suppliers accounted for approximately 24.3% (2002: 32.4%) of the Group's total purchases for the year and the purchases from the largest supplier included therein amounted to approximately 5.7%.

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.

# Report of the Directors

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Lai Pei Wor  
Chan Yau Wah  
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, Chan Yau Wah will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

## 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 2003, and thereafter until terminated by either party giving to the other not less than six months' notice in writing.

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

No director had a material interest, either directly or indirectly, 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 AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Limited Companies, were as follows:

### Long positions in ordinary shares of the Company:

| Name of director          | Number of shares held, capacity and nature of interest |                                |                    | Percentage of the Company's issued share capital |
|---------------------------|--|--------------------------------|--------------------|--|
|                           | Directly beneficially owned                            | Through controlled corporation | Total              |  |
| Lai Pei Wor               | 2,500,000  | 97,242,000*                    | 99,742,000         | 39.50  |
| Chan Yau Wah              | 5,200,000  | –                              | 5,200,000          | 2.06   |
| Chung Yik Cheung, Raymond | 152,000  | –                              | 152,000            | 0.06   |
|                           | <u>7,852,000</u>                                       | <u>97,242,000</u>              | <u>105,094,000</u> | <u>41.62</u>                                     |

\* Details of Lai Pei Wor's other interests are set out in the section headed "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below.

The interests of the directors in the share options of the Company are separately disclosed in note 31 to the financial statements.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 31 to the financial statements, 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 minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the following interests of 5% or more in the issued share capital and convertible loan notes of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

| Name                             | Number of shares held, capacity and nature of interest |                                  |                        | Total      | Percentage of the Company's issued share capital |
|----------------------------------|--|----------------------------------|------------------------|------------|--|
|                                  | Directly beneficially owned                            | Through spouse or minor children | Beneficiary of a trust |            |  |
| Celaya Limited (Note a)          | –  | –                                | 97,242,000             | 97,242,000 | 38.51  |
| Ansbacher (BVI) Limited (Note b) | –  | –                                | 97,242,000             | 97,242,000 | 38.51  |
| MC Capital B.V. (Note c)         | 24,222,666   | –                                | –                      | 24,222,666 | 9.59   |
| Lai Yiu Chun (Note d)            | 1,866,000  | 21,450,000                       | –                      | 23,316,000 | 9.23   |
| Lam Lin Chu, Winnie (Note d)     | 23,116,000   | 200,000                          | –                      | 23,316,000 | 9.23   |

### 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 (son of Lai Pei Wor) and Lai Yee Man (daughter 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.
- (c) MC Capital B.V. holds US\$1,242,188 (equivalent to approximately HK\$9,689,066) convertible loan notes of the Company and has the right to convert the convertible loan notes at a conversion price of HK\$0.40 per share into 24,222,666 shares of the Company.
- (d) Lam Lin Chu, Winnie is the wife of Lai Yiu Chun, who is a brother of Lai Pei Wor. Both Lam Lin Chu, Winnie and Lai Yiu Chun are declaring interests in the same parcel of shares.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

## CONNECTED TRANSACTIONS

During the year, the Group had no connected transactions as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## 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 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. The 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.

## 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  
27 April 2004