

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2003.

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 28 on the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2003 are set out in note 15 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2003 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 21 to 57.

An interim dividend of 7.0 cents per share (2002: 4.4 cents per share) and a special interim dividend of 21.0 cents per share (2002: Nil) were paid on 12 November 2003. The directors now recommend the payment of a final dividend of 22.0 cents per share (2002: 18.0 cents per share) and a special dividend of 6.0 cents per share in respect of the year ended 31 December 2003 (2002: 4.0 cents per share).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 26 on the financial statements. Shares were issued on the exercise of share options and as a result of scrip dividends.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$84,000 (2002: Nil).

FIXED ASSETS

Movements in fixed assets during the year are set out in note 12 on the financial statements.

ADOPTION OF CHINESE NAME

By a special resolution passed on 12 May 2003, the Company adopted the Chinese name 精電國際有限公司 as part of its legal name.

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**

* *Non-Executive Directors*

** *Independent Non-Executive Directors*

In accordance with the Bye-laws of the Company, Kwok Siu Kwan and James Lee Goon Nam 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 2003 had the following interests in the issued share capital of the Company and its subsidiaries (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and share positions required to be kept under Section 352 of the SFO:

(a) Interests in the Company

	Shares of HK\$0.25 each	
	Personal interests	Corporate interests
Varitronix International Limited		
Dr Chang Chu Cheng	21,596	68,386,479 <i>(note 1)</i>
Dr Yan Sze Kwan	10,371,072	–
Chung Shun Ming	4,334,314	–
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 2004 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 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 second Share Option Scheme of the Company was adopted on 22 June 2001 and terminated on 12 May 2003.

SHARE OPTION SCHEMES (Continued)

A third Share Option Scheme of the Company was adopted on 12 May 2003 as an incentive to the Group's employees and business associates. This Scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further options will be granted. The maximum number of shares in respect of which options may be granted under the third Share Option Scheme and any other Share Option Schemes of the Company may not exceed 10 percent of the issued share capital of the Company at the date of approval of the third Share Option Scheme. The maximum entitlement of each participant in the total number of shares issued and to be issued upon exercise of options granted under the third Share Option Scheme and any other Share Option Scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

The total number of shares available for issue under the Share Option Schemes at 31 December 2003 represents 2.06% (2002: 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. Further details of the Share Option Schemes are set out in note 26 on the financial statements.

The weighted average value per option granted in 2003 estimated at the date of grant using the Black-Scholes pricing model was HK\$4.10 (2002: HK\$2.68). The weighted average assumptions used are as follows:

	2003	2002
Risk-free interest rate	4.37%	4.54%
Expected life (in years)	10	10
Volatility	37.21	47.04

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.

SHARE OPTION SCHEMES (Continued)

	Date granted	Number of options at 1 January 2003	Granted during the year	Options cancelled during the year	Options exercised during the year	Number of options at 31 December 2003	Exercisable period	Price per share to be paid on exercise of option	Market value per share at date of grant of options	Weighted average market value per share on exercise of options
<i>Directors</i>										
Chang Chu Cheng	30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
Yan Sze Kwan	30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
Chung Shun Ming	30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
Kwok Siu Kwan	9 June 1999	150,000	-	-	-	150,000	9 July 1999 to 8 July 2009	HK\$10.90	HK\$15.00	N/A
	30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
Employees	9 June 1999	446,750	-	(4,500)	-	442,250	9 July 1999 to 8 July 2009	HK\$10.90	HK\$15.00	N/A
	1 June 2000	733,000	-	(21,000)	-	712,000	1 July 2000 to 30 June 2010	HK\$11.30	HK\$13.40	N/A
	30 August 2001	616,500	-	-	(333,000)	283,500	30 August 2001 to 29 August 2011	HK\$3.06	HK\$3.68	HK\$6.93
	13 September 2002	711,500	-	(2,000)	(429,000)	280,500	13 September 2002 to 12 September 2012	HK\$3.905	HK\$3.85	HK\$6.76
	6 October 2003	-	532,500	-	(7,000)	525,500	6 October 2003 to 5 October 2013	HK\$7.35	HK\$7.35	HK\$8.49
		<u>6,657,750</u>	<u>532,500</u>	<u>(27,500)</u>	<u>(769,000)</u>	<u>6,393,750</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

The register of interests in shares and short positions maintained under Section 336 of the SFO Ordinance shows that at 31 December 2003, other than the interests disclosed above in respect of Dr. C.C. Chang and Colville Group Limited, the following company had an interest of 5% or more in the issued share capital of the Company:

Name	Number of shares	Capacity	Approximate % of shareholding
J.P. Morgan Chase & Co.			
– Long position	24,672,224	Investment manager and other	7.95
– Lending pool	6,423,600	–	2.07

Note: The interests of J.P. Morgan Chase & Co. in the Company were held by a number of its wholly-owned subsidiaries.

Save as stated above, no other person is recorded in the register of substantial shareholders maintained under Section 336 of the SFO Ordinance as having an interest of 5% or more in the issued share capital of the Company as at 31 December 2003.

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 2003 are set out in notes 22 and 24 on the financial statements.

PROPERTIES

Particulars of the properties held by the Group are shown on pages 59 and 60 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 58 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 2003.

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, 19 April 2004