

Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and by geographical area of operations for the year ended 30 June 2002 is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 30 June 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 62.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the 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 reclassified as appropriate, is set out below. Certain amounts in the five years financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements. The effect of this change in accounting policy is that prior year adjustments have been made to reclassify the proposed final dividend of HK\$13,000,000, HK\$18,720,000 and HK\$9,533,000 for the years ended 30 June 1998, 1999, and 2000, respectively, which were recognised under current liabilities section at those respective year ends, to the proposed final dividend reserve account within the capital and reserves section of the respective balance sheets. The result of this has been to reduce both the Company's and the Group's current liabilities and increase the capital and reserves previously reported as at 30 June 1998, 1999, and 2000 by HK\$13,000,000, HK\$18,720,000 and HK\$9,533,000, respectively.

Report of the Directors

SUMMARY FINANCIAL INFORMATION *(continued)*

RESULTS	Year ended 30 June				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	4,633,000	3,700,566	4,190,934	2,958,672	2,217,895
Profit/(loss) before tax	(57,234)	10,541	131,145	128,795	77,572
Tax	(13,263)	(7,317)	(9,436)	(8,678)	(4,283)
Profit/(loss) before minority interests	(70,497)	3,224	121,709	120,117	73,289
Minority interests	(7,007)	(587)	(3)	–	71
Net profit/(loss) from ordinary activities attributable to shareholders	(77,504)	2,637	121,706	120,117	73,360

ASSETS AND LIABILITIES	As at 30 June				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000 (restated)	1999 HK\$'000 (restated)	1998 HK\$'000 (restated)
Fixed assets	510,950	436,063	420,253	300,046	296,749
Long term investments	8,613	69,231	82,012	3,767	–
Other non-current assets	1,979	–	11,715	3,772	–
Current assets	1,881,873	1,406,057	1,415,947	1,029,771	672,518
Total assets	2,403,415	1,911,351	1,929,927	1,337,356	969,267
Current liabilities	(1,757,450)	(1,059,864)	(1,066,707)	(747,832)	(548,228)
Long term liabilities	(21,988)	(202,902)	(197,153)	(41,007)	(53,250)
Total liabilities	(1,779,438)	(1,262,766)	(1,263,860)	(788,839)	(601,478)
	623,977	648,585	660,067	548,517	367,789
Minority interests	(42,831)	(2,334)	(4,397)	(4,394)	(4,394)
Net assets	581,146	646,251	661,670	544,123	363,395

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 40.69% of the total sales for the year and sales to the largest customer included therein amounted to 10.80%.

Purchases from the Group's five largest suppliers accounted for 56.47% of the total purchases for the year and purchases from the largest supplier included therein amounted to 23.88%.

None of the directors of the Company or any of their associates, 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 five largest suppliers.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

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

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

At 30 June 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$164,305,000. In accordance with the Companies Act 1981 of Bermuda, the contributed surplus may be distributed under certain circumstances. In addition, the Company's share premium account of HK\$160,458,000 as at 30 June 2002 may be distributed in the form of fully paid bonus shares.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Yang Long-san, Rowell

Mr. Lai Chen-chu, Jack

Mr. Chang Su-pong, Steve

Mr. Wang Ming-chun, Morris

(appointed on 16 January 2002)

Mr. Yeh Pei-chu, Ivan

(appointed on 16 January 2002)

Mr. Wong Kui-ming, Luffer

Ms. Hui Siu-ling, Elina

Non-executive directors

Mr. Wu Yaw-min

Mr. Yip Ka-kay, Kevin

Independent non-executive directors

Mr. Lee Chiu-kang, Alex

Mr. Chan Mo-po, Paul

Subsequent to the balance sheet date, on 17 September 2002, Mr. Wu Yaw-min resigned as a director of the Company.

In accordance with the Company's bye-laws 111 and 115, Mr. Lee Chiu-kang, Alex, Mr. Wang Ming-chun, Morris and Mr. Yeh Pei-chu, Ivan will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Except for Mr. Wang Ming-chun, Morris and Mr. Yeh Pei-chu, Ivan, all the executive directors entered into service contracts with the Company for terms of three years commencing from 1 June 1997. Subsequent to 31 May 2000, the service contracts are renewable automatically for successive terms of one year, subject to their termination by either party giving not less than six months' notice in writing to the other party.

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 other than statutory compensation.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from those disclosed under the heading "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 and fellow 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 any employee of the Company or any of its subsidiaries (including any director of the Company or any of its subsidiaries). The Scheme became effective on 26 May 1997 and, unless otherwise cancelled or amended, will remain in force for 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 June 2002, the number of shares issuable under share options granted under the Scheme was 14,775,000, which represented approximately 2.3% 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 within any 12-month period 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 (which may not expire later than 10 years from the offer date of that option), commences from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses and 10 years from the offer date of that option.

Report of the Directors

SHARE OPTION SCHEME (continued)

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

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

Name or category of participants	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	As at 1 July 2001	Granted/ (exercised) during the year	Lapsed during the year	As at 30 June 2002			
Directors							
Mr. Yang Long-san, Rowell	2,500,000	-	-	2,500,000	25 June 1999	1 January 2000 – 31 December 2004	1.20
	2,500,000	-	-	2,500,000	25 June 1999	1 January 2001 – 31 December 2005	1.20
	5,000,000	-	-	5,000,000			
Mr. Lai Chen-chu, Jack	875,000	-	-	875,000	25 June 1999	1 January 2000 – 31 December 2004	1.20
	875,000	-	-	875,000	25 June 1999	1 January 2001 – 31 December 2005	1.20
	1,750,000	-	-	1,750,000			
Mr. Chang Su-pong, Steve	250,000	-	-	250,000	25 June 1999	1 January 2000 – 31 December 2004	1.20
	250,000	-	-	250,000	25 June 1999	1 January 2001 – 31 December 2005	1.20
	500,000	-	-	500,000			
Mr. Wang Ming-chun, Morris	250,000	-	-	250,000	25 June 1999	1 January 2000 – 31 December 2004	1.20
	250,000	-	-	250,000	25 June 1999	1 January 2001 – 31 December 2005	1.20
	500,000	-	-	500,000			

Report of the Directors

SHARE OPTION SCHEME (continued)

Name or category of participants	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	As at 1 July 2001	Granted/ (exercised) during the year	Lapsed during the year	As at 30 June 2002			
Directors							
Mr. Wong Kui-ming, Luffer	500,000	-	-	500,000	25 June 1999	1 January 2000 – 31 December 2004	1.20
	500,000	-	-	500,000	25 June 1999	1 January 2001 – 31 December 2005	1.20
	1,000,000	-	-	1,000,000			
Ms. Hui Siu-ling, Elina	250,000	-	-	250,000	25 June 1999	1 January 2000 – 31 December 2004	1.20
	250,000	-	-	250,000	25 June 1999	1 January 2001 – 31 December 2005	1.20
	500,000	-	-	500,000			
Mr. Lee Chiu-kang, Alex	150,000	-	-	150,000	25 June 1999	1 January 2000 – 31 December 2004	1.20
	150,000	-	-	150,000	25 June 1999	1 January 2001 – 31 December 2005	1.20
	300,000	-	-	300,000			
Mr. Chan Mo-po, Paul	75,000	-	-	75,000	25 June 1999	1 January 2001 – 31 December 2005	1.20
	75,000	-	-	75,000			
Other employees							
In aggregate	2,725,000	-	(150,000)	2,575,000	25 June 1999	1 January 2000 – 31 December 2004	1.20
	2,725,000	-	(150,000)	2,575,000	25 June 1999	1 January 2001 – 31 December 2005	1.20
	5,450,000	-	(300,000)	5,150,000			
	15,075,000	-	(300,000)	14,775,000			

Report of the Directors

SHARE OPTION SCHEME *(continued)*

- * The vesting period of share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 June 2002, the interests of the directors and their associates in the share capital of the Company and 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") are set out below:

Directors	Number of issued ordinary shares of HK\$0.10 each in the Company and nature of interests			
	Personal	Family	Corporate	Other
Mr. Yang Long-san, Rowell <i>(Note)</i>	3,000,000	–	224,710,724	–
Mr. Chang Su-pong, Steve	1,170,000	–	–	–
Mr. Wong Kui-ming, Luffer	400,000	–	–	–
Mr. Chan Mo-po, Paul	75,000	606,896	–	–

Note: Out of the interest, 224,710,724 shares are held through Peipus International Ltd., a company incorporated in the British Virgin Islands and wholly owned by Mr. Yang Long-san, Rowell.

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 4 to the financial statements, no director had a beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries and fellow subsidiaries was a party at the balance sheet date or during the year.

Report of the Directors

DIRECTORS' BIOGRAPHIES

Executive directors

Mr. YANG Long-san, Rowell, aged 46, is the Chairman and Managing Director of the Company. He is the founder of the Group and has over 21 years' experience in the computer and electronics industry. He is responsible for the Group's overall strategic planning, policy making and finance.

Mr. LAI Chen-chu, Jack, aged 47, joined the Group in April 1999. He holds a master's degree in Law from 東吳大學 (Soochow University) of Taiwan. He has over 13 years' experience in law and business administration. He was the former Judge of 台灣板橋地方法院 (the district court of Pan-Chiao City, Taiwan), and was employed as an attorney in a business litigation law firm for several years. Mr. Lai is responsible for the strategic planning, corporate secretarial and legal matters of the Group.

Mr. CHANG Su-pong, Steve, aged 48, joined the Group in March 1991. He holds a diploma in 電子工程 (Electronic Engineering) from 國立台北工業專科學校 (National Taipei Institute of Technology) of Taiwan. He has over 20 years' experience in the computer monitor industry. Mr. Chang is responsible for the general management of the Group's factories in China.

Mr. Wang Ming-chun, Morris, aged 48, joined the Group in February 1994. He holds a diploma in Electronic Engineering from Kun Sun Institute of Technology of Taiwan. He has over 20 years' experience in the computer monitor industry. Mr. Wang is responsible for the operation of the Group.

Mr. Yeh Pei-chu, Ivan, aged 43, joined the Group in January 2002. He holds a bachelor of business degree in Business Mathematics from Soochow University of Taiwan. Mr. Yeh has over 3 years' experience in the banking industry and has worked for a Taiwanese electronics company as a CFO and CIO for over 11 years. Mr. Yeh is the Finance Director of the Group.

Mr. WONG Kui-ming, Luffer, aged 41, joined the Group in April 1994. Mr. Wong holds a bachelor of science degree in 電機工程 (Electrical Engineering) from 國立台灣大學 (National Taiwan University) of Taiwan. He also obtained his master's degree in Business Administration from the University of Leicester in the United Kingdom. Mr. Wong is responsible for the corporate relationship management of the Group and has over 15 years' experience in the computer industry.

Ms. HUI Siu-ling, Elina, aged 44, joined the Group in May 1994. Ms. Hui is responsible for the administration of the Group.

Independent non-executive directors

Mr. LEE Chiu-kang, Alex, aged 52, has been in the investment business, both in Canada and Hong Kong, for over 20 years. He has worked as the head of investment operations for four major financial institutions. For each of his previous employers, he was responsible for recruiting, training and supervising staff. Mr. Lee holds a bachelor of arts degree in Economics from the Golden Gate University of the United States of America.

Report of the Directors

DIRECTORS' BIOGRAPHIES *(continued)*

Independent non-executive directors *(continued)*

Mr. CHAN Mo-po, Paul, aged 47, is a graduate of The Chinese University of Hong Kong where he obtained both his bachelor's and master's degrees in Business Administration. He is a fellow member of the Association of Chartered Certified Accountants; the Hong Kong Society of Accountants; the Institute of Chartered Secretaries and Administrators; the Taxation Institute of Hong Kong; the Society of Chinese Accountants and Auditors; and the Macau Society of Certified Practising Accountants. He has over 25 years' experience in the accounting and finance field and is the managing partner of Paul Chan & Partners. He is currently a Council member of the Hong Kong Society of Accountants. He is a former Chairman of the Association of Chartered Certified Accountants - Hong Kong Branch and a former Council member of the Association of Chartered Certified Accountants in the United Kingdom.

Non-executive directors

Mr. Wu Yaw-min, aged 50, is a director of Great Pacific Investments Limited, a wholly-owned subsidiary of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"). He joined Yue Yuen in June 1997 and is responsible for certain investment activities of Yue Yuen. Mr. Wu graduated from 國立台灣大學 (National Taiwan University) of Taiwan and holds a bachelor of science degree in Mechanical Engineering. Before joining Yue Yuen, Mr. Wu had served in a managerial position in Formosa Plastic Corporation in Taiwan for more than 11 years.

Mr. Yip Ka-kay, Kevin, aged 38, is an executive director of GEMS (HK) Ltd. He has over 15 years of investment banking and direct investment experience in the United States of America and Hong Kong. He was previously Vice President of JP Morgan International Capital Corporation. He is currently the Vice Chairman of the Hong Kong Venture Capital Association. He holds an A. B. degree in Economics from Harvard University.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of issued ordinary shares held	Percentage of total issued ordinary shares
Peipus International Ltd. <i>(Note)</i>	224,710,724	35.36%

Note: The beneficial owner of the 224,710,724 ordinary shares held by Peipus International Ltd. is set out in the section "Directors' interests in share capital" above.

Save as disclosed above, no other person 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.

Report of the Directors

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.

CONNECTED TRANSACTIONS

In the opinion of the board of directors, including the independent non-executive directors, of the Company, the transactions during the year with Isystems Technology, Inc. ("Isystems"), a company of which Messrs. Yang Long-san, Rowell and Yang Yun-tsai (father of Mr. Yang Long-san, Rowell) own 19.4% and 16.8% of the issued share capital, respectively, were:

- (i) conducted in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) fair and reasonable so far as the shareholders of the Company are concerned.

During the year, the Group paid operating lease rentals in respect of land and buildings and machinery of approximately HK\$1,559,000 (2001: HK\$1,438,000) to Isystems.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the Companies Act 1981 of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

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 (the "Listing Rules") on the Stock Exchange throughout the accounting period covered by this annual report, save that the non-executive directors are not appointed for a specific term, but are subject to retirement by rotation in accordance with the Company's bye-laws.

Report of the Directors

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with Practice Note 19 of the Listing Rules, the Group hereby discloses that the Group had a trading receivable from a customer, namely Dongguan Huaguan Electronics Co., Ltd. ("DHEC"), of approximately HK\$205 million at 30 June 2002, which was unsecured and interest-free. The receivable arose from sales made during the year. The amount due exceeded 25% of the Group's net assets as at 30 June 2002. Up to the date of this report, 98% of the receivable from DHEC had been settled.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, 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. The Group's financial statements for the year ended 30 June 2002 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards 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
Yang Long-san, Rowell
Chairman

Hong Kong
30 October 2002