

The directors submit their report together with the audited accounts for the year ended 31st March 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture and sale of consumer audio-visual, telecommunication and plastic products.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 18.

The directors have declared an interim dividend of HK3.0 cents per ordinary share, totalling HK\$15,977,000, which was paid on 15th January 2004.

The directors recommend the payment of a final dividend of HK8.0 cents per ordinary share and a special dividend of HK3.0 cents per ordinary share, totalling HK\$58,622,000.

LIQUIDITY AND FINANCIAL RESOURCES

The cash position of the Group remained strong. As at 31st March 2004, cash and deposits amounted to HK\$586 million. After deducting the interest bearing debts of HK\$267 million, the Group had a net surplus cash of HK\$319 million, as compared with last year's HK\$284 million. The increase in net surplus cash is mainly due to profit generated from operations and with less capital expenditure incurred during the year.

The low interest rate environment helped lower interest expense from HK\$11 million last year to HK\$7 million this year. Surplus cash on hand was used to pay off higher interest-bearing debts or invested in higher yield capital-secured deposits. Interest income generated during the year increased from HK\$5 million to HK\$14 million.

Inventories increased from last year's HK\$422 million to HK\$597 million this year, indicative of stronger business activities compared with the corresponding period of last year. Total interest bearing debts increased to HK\$267 million, as compared with HK\$124 million last year. Total interest bearing debts (before netting of cash) as a ratio to shareholders' equity increased from 12% to 24%. Interest coverage for the year was over 24 times.

Exercising tight control on risk management, the Group continuously reviews the credit quality of its customers and limits individual credit exposures accordingly. Inventory level is closely monitored and goods are only produced based on orders from customers. Foreign exchange exposure is well managed, as sales and purchases, as well as interest bearing debts are denominated substantially in HK dollars and US dollars.

The Group's policy is to finance its operations by a combination of retained profits and bank borrowings. As at the end of March, total banking facilities granted to the Group amounted to HK\$1,056 million, of which HK\$264 million were used. The Group believes that its strong cash position and support from the banks not only safeguard the smooth running of its operations but also enable it to exploit potential investment opportunities.

EMPLOYEES

As at 31st March 2004, we had approximately 14,000 employees in Hong Kong and the PRC. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. We also provide other benefits including medical insurance, provident fund and education subsidies to all eligible staff.

MAJOR SUPPLIERS AND CUSTOMERS

The purchases and sales attributable to the Group's major suppliers and customers expressed as a percentage of total purchases and sales of the Group for the year ended 31st March 2004 are as follows:

| | |
|---------------------------------|-----|
| Purchases | |
| the largest supplier | 8% |
| five largest suppliers combined | 30% |
| Sales | |
| the largest customer | 23% |
| five largest customers combined | 70% |

None of the directors, their associates or shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest at any time during the year in the major suppliers or customers noted above.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 21 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 11 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes of the Group are set out on page 55.

SHARE CAPITAL AND BONUS WARRANTS

Details of the movements in share capital and bonus warrants of the Company are set out in note 20 to the accounts.

BANK LOANS AND OTHER BORROWINGS

An analysis of the Group's bank loans and other borrowings at 31st March 2004 is set out below:

| | Trust receipt loans | | Obligations under finance leases | | Bank loans | |
|----------------------------|---------------------|----------|-------------------------------------|----------|----------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Within one year | 152,638 | 43,912 | 2,813 | 6,795 | 57,143 | 22,500 |
| In the second year | - | - | 206 | 2,812 | 34,286 | 37,500 |
| In the third to fifth year | - | - | - | 213 | 20,000 | 10,000 |
| | 152,638 | 43,912 | 3,019 | 9,820 | 111,429 | 70,000 |

PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITY

Details of the Company's principal subsidiaries and jointly controlled entity at 31st March 2004 are set out in notes 31 and 14 to the accounts respectively.

RETIREMENT BENEFIT SCHEMES

Details of the Company's retirement benefit schemes are set out in note 24 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March 2004 amounted to HK\$46,220,000 (2003: HK\$46,114,000), comprising retained profits and contributed surplus.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 56.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The directors during the year were:

Mr LEUNG Kai Ching, Kimen

Mr LEUNG Wai Sing, Wilson

Mr KUOK Kun Man, Andrew

Mr WONG Po Yan, G.B.M., J.P. *

The Hon LI Wah Ming, Fred, J.P. *

Mr LAU Wang Yip, Derrick *

* *Independent non-executive directors*

All directors retire in accordance with clause 87 of the Company's Bye-laws but, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

On 1st April 2004, each of the executive directors entered into a service contract with the Company for a term of 3 years and shall continue until terminated by either party giving to the other not less than 6 months notice in writing.

The independent non-executive directors do not have any service contracts with the Company or its subsidiaries.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 7 and 8.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party and 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31st March 2004, the interests of the Directors in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

| | Number of ordinary shares | | | Total interests |
|---------------------------|---------------------------|------------------------|-------------------------|-----------------|
| | Personal interests | Corporate interests | Family interests | |
| Mr LEUNG Kai Ching, Kimen | 17,200,000 | 35,356,000 (note a) | 170,018,000 (note b) | 222,574,000 |
| Mr LEUNG Wai Sing, Wilson | 43,640,000 | – | 170,018,000 (note b) | 213,658,000 |
| Mr KUOK Kun Man, Andrew | 200,000 | – | – | 200,000 |

| | Number of bonus warrants | | | Total interests |
|---------------------------|--------------------------|-----------------------|------------------------|-----------------|
| | Personal interests | Corporate interests | Family interests | |
| Mr LEUNG Kai Ching, Kimen | 1,000,000 | 3,535,600 (note a) | 17,001,800 (note b) | 21,537,400 |
| Mr LEUNG Wai Sing, Wilson | 1,000,000 | – | 17,001,800 (note b) | 18,001,800 |

Notes:

- (a) These shares and bonus warrants were owned by Shundeau Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder.
- (b) These shares and bonus warrants were owned by Kimen Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kimen Leung Unit Trust which is beneficially owned by The Kimen Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kimen are the beneficiaries of The Kimen Leung Family Trust which is a discretionary trust.

Save as disclosed above, as at 31st March 2004, other than one ordinary share each in the Hong Kong incorporated subsidiaries of the Company held in trust for the Group by Mr LEUNG Kai Ching, Kimen, none of the directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Option Scheme", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executives or their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES

As at 31st March 2004, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name | Capacity in which shares were held | Number of shares | | | Approximate shareholding percentage |
|------------------------------------|------------------------------------|------------------|--------------|-------------------------|-------------------------------------|
| | | Long position | Lending pool | Total | |
| Shunde Investments Limited | Beneficial owner | 225,911,400 | – | 225,911,400 (note a) | 42.39% |
| HSBC International Trustee Limited | Trustee | 187,719,800 | – | 187,719,800 (note b) | 35.22% |
| Kim Leung UT Limited | Trustee | 187,019,800 | – | 187,019,800 (note c) | 35.09% |
| J.P. Morgan Chase & Co. | Investment manager | 52,550,000 | 7,250,000 | 59,800,000 | 11.22% |
| Leung Wai Lap David | Beneficial owner | 32,972,190 | – | 32,972,190 | 6.19% |
| Webb David Michael | Beneficial owner | 28,129,400 | – | 28,129,400 | 5.28% |

Notes:

- (a) 35,356,000 ordinary shares and 3,535,600 bonus warrants were held by Shunde Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kim Leung is the sole shareholder; and 170,018,000 ordinary shares and 17,001,800 bonus warrants were held by Kim Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kim Leung Unit Trust which is beneficially owned by The Kim Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kim Leung are the beneficiaries of The Kim Leung Family Trust which is a discretionary trust.
- (b) Among the referenced shares, 170,018,000 ordinary shares and 17,001,800 bonus warrants were held for Kim Leung UT Limited.
- (c) 170,018,000 ordinary shares and 17,001,800 bonus warrants related to the same block of shares which were held by Kim Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kim Leung Unit Trust which is beneficially owned by The Kim Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kim Leung are the beneficiaries of The Kim Leung Family Trust which is a discretionary trust.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES

(continued)

Save as disclosed above, as at 31st March 2004, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person, other than the Directors of the Company, whose interests are set out in the section headed "Directors' interests in shares and underlying shares" above, who had any interest or short position in the shares or underlying shares of the Company.

SHARE OPTION SCHEME

On the special general meeting which was held on 21st August 2003, shareholders of the Company approved the termination of the share option scheme adopted by the Company on 6th November 1992 which expired on 5th November 2002 and approved the adoption of a new share option scheme (the "Scheme"). The Scheme is valid and effective for a period of ten years from the date of adoption.

Pursuant to the Scheme, the Company may grant options to directors and employees of the Company or any of its subsidiaries, for the purpose of providing incentives, to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options granted and yet to be exercised under all share option schemes shall not exceed 30% of the issued share of the Company from time to time.

The number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not exceed 10% of the issued shares of the Company on the date of adoption.

The total number of options granted to an individual grantee in any 12-month period must not exceed 1% of the issued shares of the Company.

The period within which the shares must be taken up under an option is any period as determined by the Board, which shall not be more than 10 years from date of grant or the expiry date of the Scheme, whichever is earlier.

The subscription price of the share options shall not be less than the higher of (i) the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant, (ii) the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

An option grantee shall pay HK\$5 to the Company for the acceptance of an option.

No share options have been granted by the Company since the adoption of the Scheme.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the Code of Best Practice except that independent non-executive directors are not appointed for a specific term as recommended under Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, independent non-executive directors of the Company will retire every year and their appointments will be reviewed when they are due for re-election. In the opinion of the Company, this meets the same objective as the Code of Best Practice.

AUDIT COMMITTEE

The terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Mr WONG Po Yan, G.B.M., J.P., the Hon LI Wah Ming, Fred, J.P. and Mr LAU Wang Yip, Derrick. The Audit Committee has reviewed the financial statements of the Group for the year ended 31st March 2004.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LEUNG Kai Ching, Kimen

Chairman

Hong Kong, 13th July 2004