

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2002.

GROUP REORGANISATION

The Company was incorporated in Bermuda on 5 January 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the Group structure in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired Market Reach Group Limited, the then holding company of the subsidiaries listed in note 15 to the financial statements, and became the holding company of the Group on 24 March 2001. Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 15 and 24 to the financial statements.

On 19 April 2001, the Company's shares were listed on the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 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 21 to 54.

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

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and assets and liabilities of the Group for the last five years prepared on the basis set out in the note below:

RESULTS

	Year ended 31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	<u>518,281</u>	<u>670,180</u>	<u>483,605</u>	<u>306,242</u>	<u>241,209</u>
Profit before tax	<u>10,565</u>	<u>50,244</u>	<u>35,550</u>	<u>24,254</u>	<u>18,388</u>
Tax	<u>(1,666)</u>	<u>(8,184)</u>	<u>(6,114)</u>	<u>(4,043)</u>	<u>(2,995)</u>
Net profit from ordinary activities attributable to shareholders	<u>8,899</u>	<u>42,060</u>	<u>29,436</u>	<u>20,211</u>	<u>15,393</u>

ASSETS AND LIABILITIES

	As at 31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Fixed assets	<u>7,705</u>	<u>3,452</u>	<u>1,108</u>	<u>1,192</u>	<u>2,163</u>
Current assets	<u>201,592</u>	<u>159,767</u>	<u>112,167</u>	<u>69,454</u>	<u>49,155</u>
Total assets	<u>209,297</u>	<u>163,219</u>	<u>113,275</u>	<u>70,646</u>	<u>51,318</u>
Current liabilities	<u>(107,227)</u>	<u>(107,389)</u>	<u>(82,863)</u>	<u>(46,670)</u>	<u>(29,502)</u>
Non-current liabilities	<u>(677)</u>	<u>(783)</u>	<u>–</u>	<u>–</u>	<u>(3,051)</u>
Total liabilities	<u>(107,904)</u>	<u>(108,172)</u>	<u>(82,863)</u>	<u>(46,670)</u>	<u>(32,553)</u>
	<u>101,393</u>	<u>55,047</u>	<u>30,412</u>	<u>23,976</u>	<u>18,765</u>

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SUMMARY FINANCIAL INFORMATION *(continued)*

Note:

The summary of the published combined results for each of the three years ended 31 March 2000 has been extracted from the Company's listing prospectus dated 30 March 2001. The consolidated results of the Group for each of the two years ended 31 March 2002 are set out in the financial statements on page 21. The summary of the consolidated/combined results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout these financial years, and is presented on the basis set out in note 3 to the financial statements.

The combined balance sheets as at 31 March 1998, 1999 and 2000 have been extracted from the Company's listing prospectus dated 30 March 2001, and were prepared on the basis as if the Group had been in existence since 1 April 1997. The consolidated balance sheets as at 31 March 2001 and 31 March 2002 are as set out on page 22 of the financial statements.

This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with reasons therefor, and details of the Company's share option scheme, are set out in note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or 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

Other than in connection with the Company's initial public offering and the public listing of the Company's shares on the Stock Exchange on 19 April 2001, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

DISTRIBUTABLE RESERVES

At 31 March 2002, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$71,329,000. This amount included the Company's contributed surplus in the amount of HK\$54,045,000 at 31 March 2002, which may only be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK\$17,647,000 at 31 March 2002, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (1) The aggregate amount of sales attributable to the Group's five largest customers represented approximately 22% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 5%.
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 80% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 32%.

As far as the directors are aware, neither the directors, their associates nor shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers during the year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 29 to the financial statements.

PENSION SCHEMES AND COSTS

Details of the Group's pension schemes and costs charged to the profit and loss account for the year are set out in notes 3 and 6 to the financial statements, respectively.

At 31 March 2002, the Group did not have any significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

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DIRECTORS

The directors of the Company during the year and at the date of this report were as follows:

Executive directors:

Mr. Kwok Tat Kwong

Mr. Liau Leong Pin

Mr. Cheung Yat Ko

Mr. Liau Leong Chee (resigned on 12 November 2001)

Independent non-executive directors:

Mr. Chan Kam Man

Mr. Au Chun Wai

In accordance with the Company's bye-laws, Mr. Chan Kam Man and Mr. Au Chun Wai will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors but not including the chairman of the board of directors and/or the managing director of the Company, are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 11 of the annual report.

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 April 2001, which continues thereafter until terminated by either party giving six months' notice in writing to the other party.

Save as disclosed above, 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

Save as disclosed in note 29 to the financial statements, no director had a material 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 was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors or chief executives of the Company or their respective associates in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Name of director	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interest			
	Personal interest	Family interest	Corporate interest	Other interest
Mr. Kwok Tat Kwong (<i>Note (i)</i>)	–	–	95,200,000	–
Mr. Liau Leong Pin (<i>Note (ii)</i>)	–	–	40,800,000	–

Notes:

- (i) The 95,200,000 shares are registered in the name of Best Dollar Investments Limited ("Best Dollar"), a company incorporated in the British Virgin Islands ("BVI") and wholly-owned by Mr. Kwok Tat Kwong.
- (ii) The 40,800,000 shares are registered in the name of Everwonder Investments Limited ("Everwonder"), a company incorporated in the BVI and wholly-owned by Mr. Liau Leong Pin.

1,480,000 non-voting deferred shares in Wah Tat Industrial (Hong Kong) Limited are beneficially owned as to 1,036,000 by Mr. Kwok Tat Kwong and 444,000 by Mr. Liau Leong Pin. 100 non-voting deferred shares in Luen Tai Industrial (H.K.) Limited are beneficially owned as to 70 by Mr. Kwok Tat Kwong and 30 by Mr. Liau Leong Pin. 1,800,000 non-voting deferred shares in Luen Tai Component Limited are beneficially owned as to 900,000 by Mr. Kwok Tat Kwong and 900,000 by Mr. Liau Leong Pin.

In addition to the above, a director of the Company has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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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 the Company's directors (excluding non-executive directors) and other employees of the Group. The Scheme was adopted on 26 March 2001 and, unless otherwise cancelled or amended, will remain in force for ten years from that date. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange.

The maximum number of shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the share capital of the Company in issue from time to time (except shares issued pursuant to the exercise of options granted under the Scheme). In addition, the maximum number of shares in respect of which share options may be granted to any eligible person shall not exceed 25% of the total number of shares in respect of which options may be granted under the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option.

The offer of a grant of share options may be accepted within 21 days from the date of the offer with no consideration being payable by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the board of directors which shall not be more than 10 years from the date on which the share option is deemed to be granted and accepted.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of share option schemes, which came into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interests of the Company to terminate the Scheme of the Company and to adopt a new share option scheme. An ordinary resolution will be proposed at the Company's shareholders' meeting for the approval of a new share option scheme and the termination of the Scheme.

Up to the date of approval of these financial statements, no share options were granted or outstanding under the Scheme.

SUBSTANTIAL SHAREHOLDERS

At the date of this report, no person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance, other than the shares held by Best Dollar and Everwonder as disclosed in the section headed "Directors' interests in shares" above, which represented 47.6% and 20.4%, respectively, of the issued share capital of the Company at the date of this report.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 30 to the financial statements.

COMPLIANCE WITH THE 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 a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with 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. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 March 2002 and are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules 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

Kwok Tat Kwong

Chairman

Hong Kong
23 July 2002