

Report of the Directors

Annual Report 2002

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no 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 5 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 19 to 48.

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 of the assets and liabilities of the Group prepared on the basis set out in the note below:

	Year ended 31 March				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS					
Turnover	<u>156,162</u>	<u>145,959</u>	<u>102,825</u>	<u>94,777</u>	<u>74,049</u>
Profit before tax	17,454	37,140	24,467	20,635	16,270
Tax	<u>(1,895)</u>	<u>(3,575)</u>	<u>(1,484)</u>	<u>(2,305)</u>	<u>(736)</u>
Net profit from ordinary activities attributable to shareholders	<u>15,559</u>	<u>33,565</u>	<u>22,983</u>	<u>18,330</u>	<u>15,534</u>

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SUMMARY FINANCIAL INFORMATION (Continued)

	2002	2001	As at 31 March		
	HK\$'000	HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
ASSETS AND LIABILITIES					
Non-current assets	72,044	60,929	67,846	54,035	39,818
Current assets	99,605	44,082	13,365	12,358	11,434
Current liabilities	(59,713)	(30,879)	(18,825)	(18,425)	(16,320)
Non-current liabilities	(12,329)	(15,477)	(24,296)	(22,861)	(20,155)
Net assets	99,607	58,655	38,090	25,107	14,777

Note: The summary of the combined results of the Group for the three years ended 31 March 2000 and the combined assets and liabilities of the Group as at 31 March 1998, 1999 and 2000 have been extracted from the Company's prospectus dated 30 March 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis set out in note 4 to the financial statements. The results of the Group for the two years ended 31 March 2002 and its assets and liabilities as at 31 March 2001 and 2002 are those set out on pages 19 and 20 of the financial statements.

FIXED ASSETS AND INVESTMENT PROPERTY

Details of movements in the fixed assets and investment property of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital, together with the reasons therefor, and details of the Company's share option scheme are set out in note 26 to the financial statements and disclosed under the heading "Share option scheme" below.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2002, the Company's contributed surplus account available for cash distribution and/or distribution in specie amounted to HK\$55,967,000. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus may be distributed in certain circumstances. In addition, the Company's share premium account with a balance of HK\$21,593,000 may be distributed in the form of fully paid bonus shares.

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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 was 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

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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 60.9% of the Group's total sales for the year, and sales to the Group's largest customer accounted for 17.0% of the Group's total sales for the year. Purchases from the Group's five largest suppliers accounted for 81.3% of the Group's total purchases for the year, and purchases from the Group's largest supplier accounted for 26.9% of the Group's total purchases for the year.

As far as the directors are aware, none of the directors of the Company or their associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")), 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 suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Fu Chu Kan
Madam Fu Yin Ling
Mr. Chan Kit Ming

Independent non-executive directors:

Mr. Wong Kai Tat
Mr. Wong Wing Hang, Henry

In accordance with clause 87 of the Company's bye-laws, Mr. Wong Wing Hang, Henry 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 agreement with the Company for an initial term of three years commencing from 1 March 2001, and which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive directors is currently appointed for a term of two years commencing from 26 March 2001.

Apart from the foregoing, 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 in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 32 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors in the share capital of the Company or 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"), were as follows:

Name of director	Nature of interest	Number of shares held
Mr. Fu Chu Kan	Corporate (Note)	2,180,000,000
Madam Fu Yin Ling	Other (Note)	–

Note: The 2,180,000,000 shares are held by Top Master Development Limited ("Top Master"), a company incorporated in the British Virgin Islands. The issued share capital of Top Master is beneficially owned by Mr. Fu Chu Kan and Madam Fu Yin Ling as to 90% and 10%, respectively.

In addition to the above, certain directors have 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 their associates had any personal, family, corporate or other interests in the ordinary shares of the Company or any of its associated corporations as defined in the SDI Ordinance.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the year was the Company, its holding 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.

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 independent non-executive directors, and other full time employees of the Group. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 12 April 2001, and unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

Under the terms of the Scheme:–

- (i) the maximum number of shares of the Company in respect of which share options may be granted may not exceed in nominal amount of 10% of the issued share capital of the Company from time to time (the "Scheme Limit");
- (ii) no share option may be granted to any participant, if exercised in full, will result in the total number of shares already issued and which may fall to be issued to him under all options previously granted to him pursuant to the Scheme exceeding 25% of the Scheme Limit.
- (iii) offer of a grant of share option may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee; and
- (iv) the subscription price of shares under the Scheme may not be less than the higher of 80% of the average of the closing price of shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the share options and the nominal value of the shares of the Company.

The Scheme was adopted prior to the new rules on share option schemes under the Listing Rules coming into operation. The Company may only grant further options under the Scheme if the options are granted in accordance with the requirements of the new rules of Chapter 17 of the Listing Rules which include, inter alia, the followings:–

- (i) the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other Schemes must not in aggregate exceed 10% of the relevant class of shares of the Company (or its subsidiaries) in issue as at the date of approval of the Scheme. Subject to compliance with the Listing Rules, the limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the relevant class of shares of the Company in issue from time to time;

SHARE OPTION SCHEME (Continued)

- (ii) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Grant of options to connected persons are subject to more stringent requirements; and
- (iii) the exercise price of the share options is determined by directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the grant of the share options; and (ii) the average of the Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer of the grant of the share options.

No share option were granted during the year and up to the date of this report.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of issued share capital
Top Master (Note)	2,180,000,000	54.5%
Yue Fung International Group Holding Limited	820,000,000	20.5%

Note: The issued share capital of Top Master is beneficially owned by Mr. Fu Chu Kan and Madam Fu Yin Ling as to 90% and 10%, respectively.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered any interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has 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.

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AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 26 March 2001 with written terms of reference in compliance with the requirements of the Code. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises two independent non-executive directors. The Group's financial statements for the year ended 31 March 2002 have been reviewed by the Committee.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC LISTING

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 12 April 2001, after deduction of related expenses, amounted to approximately HK\$25.5 million. These proceeds were fully applied during the current financial year in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

- approximately HK\$17 million was used for the procurement of production machinery, equipment and moulds; and
- the balance of HK\$8.5 million was applied as additional working capital of the Group.

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
Fu Chu Kan
Chairman and Managing Director

Hong Kong
25 July 2002