

Report of the Directors

The directors have pleasure in submitting to shareholders their report and statement of accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries and associated companies are shown on pages 75 to 78.

The analysis of the turnover and results by principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated profit and loss account on page 26.

There was no transfer from accumulated profit (2001: Nil) to capital redemption reserve during the year.

DIVIDENDS

No interim dividend for the year ended 31 December 2002 was paid and the directors recommend the declaration of a final dividend at the rate of HK1.5 cents per share payable on 20 May 2003 to all persons registered as holders of the Company's shares on 19 May 2003.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 29 to the accounts.

CHARITABLE DONATIONS

Donations to charitable organisations by the Group during the year amounted to HK\$20,000 (2001: HK\$29,400).

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FIXED ASSETS

Particulars of the movements of fixed assets are set out in note 13 to the accounts.

PROPERTIES

Particulars of the major properties of the Group are set out on pages 80 to 84.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 27 to the accounts.

DIRECTORS

The board of directors as at 31 December 2002 comprises Messrs. Fok Kin-ning, Canning, Lai Kai Ming, Dominic, Luk Tei, Lewis, Ko Yuet Ming, Chow Woo Mo Fong, Susan, Chow Wai Kam, Raymond, Edith Shih, Chan Wen Mee, May (Michelle), Endo Shigeru, Cheung Wing Han, Miranda, Tam Yue Man, Ronald Joseph Arculli and Cheng Ming Fun, Paul.

Messrs. Endo Shigeru and Cheung Wing Han, Miranda were appointed as directors with effect from 19 March 2002 and 1 June 2002 respectively. Dr. Luk Chung Lam, the former Co-Chairman of the Company passed away on 15 August 2002. Mr. Tam Yue Man was appointed as a director with effect from 1 October 2002.

In accordance with bye-laws 95, 112(A) and 112(B) of the Company, Messrs. Lai Kai Ming, Dominic, Cheung Wing Han, Miranda and Tam Yue Man will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

INTEREST IN CONTRACTS

No contracts of significance in relation to the businesses of the Company and its subsidiaries to which the Company or a subsidiary was a party in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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DIRECTORS' SERVICE CONTRACT

There is no unexpired directors' service contract which is not terminable by the Company within one year of any director proposed for re-election at the forthcoming annual general meeting.

CONNECTED TRANSACTIONS

Since June 2002, the Group has commenced the supply of a product range i.e. plastic, fabric, electronics and paper products, moulds, premium products and mobile phone accessories, to other members of the Hutchison Whampoa Limited ("HWL") group. The first batch of transactions (the "Transactions") between the two groups of companies took the form of supplies to A. S. Watson Group (HK) Limited ("A. S. Watson"), an indirect wholly owned subsidiary of HWL, of cap covers and injection moulds for parts of "Watsons Water" bottles manufactured by Coronet Toys Company Limited ("Coronet"), an indirect wholly owned subsidiary of the Company. These products were supplied on normal commercial terms reached after arm's length negotiations and the aggregate sales amount up to 5 August 2002 was approximately HK\$1,600,000. As A. S. Watson is a connected person of the Company by virtue of it being an associate of HWL which is a substantial shareholder of the Company, the abovementioned transactions constituted connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company made an application to The Stock Exchange of Hong Kong Limited (the "SEHK") for a waiver to disclose further Transactions (the "Further Transactions") by way of press announcement. On 25 November 2002, the SEHK granted to the Company a conditional waiver (the "Waiver") from strict compliance with the connected transactions requirements as set out in Chapter 14 of the Listing Rules in respect of Further Transactions subject to the following conditions (the "Waiver Conditions"):

- (1) the Further Transactions shall be (i) entered into by the Group in the ordinary and usual course of its business; (ii) conducted either (a) on normal commercial terms reached after arm's length negotiations; or (b) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and (iii) entered into either (a) in accordance with the terms of agreement (if any) governing such Further Transactions or; (b) where there are no such agreements, on terms no less favourable than those available to (or from) independent third parties; and (iv) conducted in accordance with the pricing policies of the Group prevailing from time to time;

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CONNECTED TRANSACTIONS (continued)

- (2) the aggregate sales amount in respect of the Further Transactions on an annual basis shall not exceed the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company as disclosed in its latest published consolidated accounts (the "Cap Amount");
- (3) the independent non-executive directors of the Company shall review the Further Transactions annually and shall confirm in the Company's annual report for the relevant financial year that the Further Transactions are conducted in the manner as stated in paragraphs (1) and (2) above;
- (4) the auditors of the Company shall review the Further Transactions annually and confirm in a letter to the board of directors of the Company, a copy of which shall be provided to the Listing Division of the SEHK, stating whether the Further Transactions (i) have received the approval from the board of directors of the Company; (ii) have been entered into in accordance with the pricing policies as disclosed in the annual report of the Company; (iii) have been entered into in accordance with the terms of the relevant agreement; and (iv) have not exceeded the Cap Amount; and
- (5) details of the Further Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for the financial year concerned together with a statement of opinion of the independent non-executive directors and the auditors of the Company referred in paragraphs (3) and (4) above.

Since the grant of the Waiver, the SEHK has confirmed that if there are no pricing policies disclosed in the annual report of the Company, it would not be necessary for the independent non-executive directors and the auditors of the Company to confirm whether the Further Transactions have been entered into in accordance with such pricing policies (i.e. paragraphs 1 (iv) and 4 (ii) of the Waiver Conditions).

The SEHK reserves the right to revoke or modify any waiver granted by the Waiver in the event of any change in the terms of the Further Transactions for which such waiver was granted (including any extension or renewal of the agreements evidencing such Further Transactions) or in the circumstances under which such waiver was granted.

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CONNECTED TRANSACTIONS (continued)

The Further Transactions for the year ended 31 December 2002 (the "2002 Further Transactions") comprised the following transactions:

- (a) From 6 August 2002 to 31 December 2002, Cardner International Inc., an indirect wholly owned subsidiary of the Company, through Coronet further supplied cap covers for parts of "Watsons Water" bottles to A. S. Watson and the aggregate sales amount therefor was approximately HK\$2,160,000; and
- (b) On 31 December 2002, i.Tech Dynamic Limited ("i.Tech"), an indirect wholly owned subsidiary of the Company, supplied bluetooth headsets to Hutchison 3G UK Limited ("H3G"), an indirect non-wholly owned subsidiary of HWL, for an aggregate sales amount of approximately HK\$1,380,000. As H3G is a connected person of the Company by virtue of it being an associate of HWL, the supplies of bluetooth headsets constituted a connected transaction for the Company under the Listing Rules.

In satisfaction of one of the Waiver Conditions, all the independent non-executive directors have reviewed the 2002 Further Transactions and confirm that:

- (a) the 2002 Further Transactions have been (i) entered into by the Group in the ordinary and usual course of the business of the Group; (ii) conducted on normal commercial terms reached after arm's length negotiations; and (iii) entered into in accordance with the terms of agreement; and
- (b) the aggregate sales amount in respect of the 2002 Further Transactions does not exceed the Cap Amount.

The auditors of the Company have also reviewed the 2002 Further Transactions and confirm that the 2002 Further Transactions (i) have received the approval from the board of directors of the Company; (ii) have been entered into in accordance with the terms of the relevant agreement; and (iii) do not exceed the Cap Amount.

On 20 January 2003, Acefield Limited ("Acefield"), an indirect wholly owned subsidiary of the Company, agreed to provide an interest-free loan of HK\$10,000,000 to Guangzhou Panyu Shawan Acefield Toys Co., Ltd. ("GPSAT"), a company then owned as to approximately 96.75% in aggregate by the Company through Acefield and Goodway Electronic Technology Limited ("Goodway"), an indirect wholly owned subsidiary of the Company, and as to approximately 3.25% by a Chinese joint venture party (the "JV Party"). The granting of the loan constituted a connected transaction for the Company under the Listing Rules.

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CONNECTED TRANSACTIONS (continued)

On 28 January 2003, i. Tech agreed to inject into GPSAT an aggregate value of HK\$15,000,000 (the "Capital Injection") by way of import of equipment into GPSAT for the development and production of digital cameras and accessories. Immediately after the Capital Injection, the equity interests in GPSAT will be held as to approximately 97.54% in aggregate by the Company through i. Tech (as to approximately 24.27%) and Acefield and Goodway (as to approximately 73.27%) and approximately 2.46% by the JV Party. The Capital Injection constituted a connected transaction for the Company under the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2002, the interests of the directors and chief executives of the Company in the securities of the Company or any of 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 or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

(a) Interests in the Company

Name	Number of securities held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Fok Kin-ning, Canning	—	—	5,000,000 ordinary shares	—	5,000,000 ordinary shares
Luk Tei, Lewis	4,630,000 ordinary shares	—	—	—	4,630,000 ordinary shares
Ko Yuet Ming	3,000,000 ordinary shares	84,000 ordinary shares	—	—	3,084,000 ordinary shares
Endo Shigeru	80,000 ordinary shares	—	—	—	80,000 ordinary shares
Tam Yue Man	2,100,000 ordinary shares	—	—	—	2,100,000 ordinary shares

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (continued)

(b) Interests in Associated Corporations

Hutchison Whampoa Limited ("HWL")

Name	Number of ordinary shares held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Fok Kin-ning, Canning	—	—	2,010,875	—	2,010,875
Lai Kai Ming, Dominic	50,000	—	—	—	50,000
Luk Tei, Lewis	22,270	—	—	—	22,270
Ko Yuet Ming	—	16,000	—	—	16,000
Chow Woo Mo Fong, Susan	50,000	—	—	—	50,000
Edith Shih	—	34,600 (Note)	—	—	34,600
Chan Wen Mee, May (Michelle)	5,000	—	—	—	5,000
Endo Shigeru	2,000	—	—	—	2,000
Cheung Wing Han, Miranda	12,000	—	—	—	12,000
Tam Yue Man	3,000	—	—	—	3,000
Ronald Joseph Arculli	—	—	11,224	—	11,224

Note: The interest represented the aggregate number of shares held by Ms. Edith Shih and her spouse.

In addition, as at 31 December 2002, Mr. Fok Kin-ning, Canning had (i) personal interests in 100,000 ordinary shares in and 134,000 5.5% Unsecured Convertible Notes due 2007 issued by Hutchison Telecommunications (Australia) Limited ("HTAL") and (ii) corporate interests in a nominal amount of US\$30,000,000 in the 7% Notes due 2011 issued by Hutchison Whampoa International (01/11) Limited ("HWI(01/11)"), 1,000,000 ordinary shares in and 1,340,001 5.5% Unsecured Convertible Notes due 2007 issued by HTAL, 300,000 common shares in Husky Energy Inc. and 225,000 American Depositary Shares (each representing one ordinary share) in and a nominal amount of US\$3,000,000 in the 13% Unsecured Senior Subordinated Notes due 2010 issued by Partner Communications Company Ltd. ("Partner Communications").

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (continued)

(b) Interests in Associated Corporations (continued)

Hutchison Whampoa Limited ("HWL") (continued)

Ms. Edith Shih had, as at 31 December 2002, (i) personal interests in a nominal amount of US\$205,000 in the 6.95% Notes due 2007 issued by Hutchison Whampoa Finance (CI) Limited and a nominal amount of US\$200,000 in the 13% Unsecured Senior Subordinated Notes due 2010 issued by Partner Communications and (ii) a family interest in an aggregate nominal amount of US\$400,000 in the 7% Notes due 2011 issued by HWI(01/11).

Save as disclosed above, as at 31 December 2002, none of the directors or the chief executives of the Company had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations within the meaning of the SDI Ordinance and none of the directors or the chief executives nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2002, the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance showed, or the Company had been notified, that the following persons had an interest of 10% or more of the issued share capital of the Company:

Name	Number of ordinary shares
Promising Land International Inc. ("Promising Land") (Notes 1 and 2)	2,833,284,508
Acefield (B.V.I.) Limited ("Acefield") (Note 3)	970,473,579

Notes:

1. *Promising Land is a wholly owned subsidiary of Hutchison International Limited ("HIL"), which in turn is a wholly owned subsidiary of HWL. By virtue of the SDI Ordinance, HWL and HIL are deemed to be interested in the 2,833,284,508 ordinary shares of the Company held by Promising Land.*

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SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes: (continued)

- Li Ka-Shing Unity Holdings Limited (in which Mr. Li Ka-shing owns more than one-third of its issued share capital) owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUTI"). TUTI as trustee of The Li Ka-Shing Unity Trust, together with certain companies in which TUTI as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings (the "Related Companies"), hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Certain subsidiaries of CKH together hold more than one-third of the issued share capital of HWL.*

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDTI"). TDTI as trustee of The Li Ka-Shing Unity Discretionary Trust holds a majority of units in The Li Ka-Shing Unity Trust.

By virtue of the interest in TDTI and TUTI through Li Ka-Shing Unity Holdings Limited, the interest in the shares of CKH held by TUTI as trustee of The Li Ka-Shing Unity Trust and its Related Companies, the interest of the subsidiaries of CKH in HWL, and the indirect interest of HWL in the ordinary shares in the Company as described above, Mr. Li Ka-shing is taken to have an interest in the ordinary shares of the Company held by Promising Land under the SDI Ordinance.

- 858,473,579 ordinary shares and 112,000,000 ordinary shares of the Company were held by Reading Investments Limited and a company, both being companies of which more than one-third of the issued share capital was owned by Acefield. By virtue of the SDI Ordinance, Acefield was deemed to be interested in an aggregate of 970,473,579 ordinary shares of the Company.*

In addition, the estate of the late Dr. Luk Chung Lam owns more than one-third of the issued share capital of Acefield. By virtue of the SDI Ordinance, the estate of the late Dr. Luk Chung Lam was deemed to be interested in the 970,473,579 ordinary shares of the Company as described above. In addition to the personal interest in 3,450,000 ordinary shares of the Company held by the estate of the late Dr. Luk Chung Lam, the estate of the late Dr. Luk Chung Lam was taken to have an interest in an aggregate of 973,923,579 ordinary shares of the Company.

Saved as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company at 31 December 2002.

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DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2002 and up to the date of this report, the directors of the Company have interests in companies of which their businesses compete or are likely to compete, either directly or indirectly, with the businesses of the Company as required to be disclosed pursuant to Rule 8.10 of the Listing Rules, by virtue of either (i) their directorships in the following companies or a number (in excess of 100) of associated companies of the Company or its holding company or other companies in which the Company or its holding company has less than 20% shareholding interest, as a result of their nomination by the Company or its holding company to the board of such companies; or (ii) their deemed interests in the following companies:

Name	Name of company	Nature of competing business
Luk Tei, Lewis	Fill Sales Services Limited	- Property investment
(as director)	Game Pioneer Limited	- Property investment
Ko Yuet Ming	Lord Young International	- Investment holding
(as director)	Holdings Limited	
	Lord Young Investment Limited	- Investment holding
	Main Sales Development Limited	- Property investment
Ko Yuet Ming	B.P.Y.A. 680 Holdings Limited	- Investment and management
(as director)	Shabusen Yakniku House (No.2) Limited	- Restaurant operation
	Shaoxing Xian Heng Hotel Co., Ltd.	- Hotel management and ownership
	Zhejiang Jianhu Real Estate	- Property development
	Development Co., Ltd.	

During the year ended 31 December 2002, Ever Century Enterprises Limited, of which Mr. Luk Tei, Lewis is a director and Mr. Ko Yuet Ming is a director and substantial shareholder, and Lord Young Properties Limited, of which Mr. Luk is a director, have ceased to carry on businesses compete or are likely to compete, either directly or indirectly, with the businesses of the Company.

Save as disclosed above, none of the directors is(was) interested in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company during the year ended 31 December 2002 and up to the date of this report.

BORROWINGS

There were no bank borrowings outstanding at 31 December 2002.

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POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 35 to the accounts.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, Whizz-Work Holdings Limited, a then subsidiary of the Company, sold a total of 59,502,488 shares of the Company on the SEHK for an aggregate consideration of approximately HK\$35,025,384.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities. In addition, the Company has not redeemed any of its listed securities during the year.

CORPORATE GOVERNANCE

The Group is committed to high standards of corporate governance and has throughout the year complied with statutory and non-statutory requirements, including those stipulated in the Companies Act in Bermuda and the Companies Ordinance, the Listing Rules, the SDI Ordinance in Hong Kong as well as overseas statutes and rules.

Code of Best Practice

With respect to the Code of Best Practice as set out in Appendix 14 of the Listing Rules, physical board meetings of the Company are held at least twice a year. Executive directors of the Company meet on a regular basis to oversee the Company's day-to-day management, including the formulation of Group wide strategies and policies, the approval of annual budgets and business plans and the review of operational issues and financial and business performance. In addition, executive directors of the Company are actively involved in the management of the Group's subsidiaries and associated companies through regular participation at the board and operational levels of such subsidiaries and associated companies. With the exception of the two independent non-executive directors having no set term of office and retiring from office on a rotational basis, the Company has complied with Appendix 14 of the Listing Rules throughout the year ended 31 December 2002.

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CORPORATE GOVERNANCE (continued)

Audit Committee

The Audit Committee of the Company currently has a membership comprising two independent non-executive directors of the Company. The terms of reference of the Audit Committee, which is based on "A Guide for the Formation of an Audit Committee" as issued by the Hong Kong Society of Accountants in 1997, sets out the powers and duties of the committee and is reviewed by the board of directors of the Company from time to time. The Audit Committee meets regularly with management and the external auditors of the Company and reviews matters relating to audit, accounting and financial statements as well as internal control, risk evaluation and general compliance of the Group and reports directly to the board of directors of the Company.

PRE-EMPTIVE RIGHTS

There was no provisions for pre-emptive rights under the Bye-Laws of the Company, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE YEAR 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 79.

RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 11 to the accounts.

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MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year ended 31 December 2002 attributable to the Group's major customers and suppliers are as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	39%	N/A
Five largest customers combined	70%	N/A
The largest supplier	N/A	3%
Five largest suppliers combined	N/A	11%

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

AUDITORS

KPMG were appointed as auditors of the Company in 2000 upon the retirement of Deloitte Touche Tohmatsu. PricewaterhouseCoopers were appointed as auditors of the Company to fill the casual vacancy upon the resignation of KPMG in 2001.

PricewaterhouseCoopers will retire and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

Edith Shih

Director and Company Secretary

Hong Kong, 18 March 2003