

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal activities have not changed during the year and consisted of the manufacture and sale of telephone accessories, power cords, adaptors and electronic products, printed circuit boards, high precision metal parts and the provision of freight forwarding and delivery services.

Subsequent to the balance sheet date, on 7 January 2003, the Group discontinued the operation of the provision of freight forwarding and delivery services. Further details of which are included in note 6 to the financial statements.

RESULTS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 82.

Report of the Directors ►

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and adjusted as appropriate, is set out below.

	2002 HK\$'000	Year ended 31 December			
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
RESULTS					
TURNOVER	426,269	<u>516,310</u>	<u>686,604</u>	<u>754,426</u>	<u>649,513</u>
OPERATING PROFIT/(LOSS)	(6,617)	(48,144)	13,037	(7,592)	(5,724)
Gain on disposal of interest in a jointly controlled entity	6,164	–	–	–	–
Write-back of impairment provision for a long term investment	11,500	–	–	–	–
Loss on disposal of a subsidiary	–	(19,620)	–	–	–
Provision for impairment in value of interest in a jointly controlled entity	–	(2,000)	(25,892)	–	–
Provision for impairment in value of goodwill on acquisition of interest in a jointly controlled entity	–	–	(17,931)	–	–
Share of profits and losses of jointly controlled entities	16,137	<u>10,301</u>	<u>18,063</u>	<u>30,675</u>	<u>18,993</u>
PROFIT/(LOSS) BEFORE TAX	27,184	(59,463)	(12,723)	23,083	13,269
Tax	(866)	<u>(1,502)</u>	<u>527</u>	<u>(1,900)</u>	<u>1,911</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	26,318	(60,965)	(12,196)	21,183	15,180
Minority interests	(1,187)	<u>(1,742)</u>	<u>(6,499)</u>	<u>(2,980)</u>	<u>(4,334)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	25,131	<u>(62,707)</u>	<u>(18,695)</u>	<u>18,203</u>	<u>10,846</u>

SUMMARY OF FINANCIAL INFORMATION (continued)

	2002 HK\$'000	As at 31 December			
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	867,785	615,145	757,095	803,081	796,414
TOTAL LIABILITIES	(333,565)	(105,846)	(164,946)	(197,193)	(211,973)
MINORITY INTERESTS	(9,543)	(9,756)	(39,778)	(33,279)	(31,199)
	524,677	<u>499,543</u>	<u>552,371</u>	<u>572,609</u>	<u>553,242</u>

FIXED ASSETS AND INVESTMENT PROPERTIES

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

SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the Company's share capital during the year. Details of movements in the Company's share options during the year, together with reasons therefor, are set out in note 29 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 30 to the financial statements.

Report of the Directors ▶

DIRECTORS

The directors of the Company during the year were as follows:

Cao Zhong

Yu Jian

Xu Xianghua

Tse Chun Sing

Leung Shun Sang, Tony

Chan Wah Tip, Michael*

Liu Wei*

Choy Hok Man, Constance*

* *Independent non-executive directors*

In accordance with clause 103(A) of the Company's articles of association, Mr. Yu Jian, Ms. Xu Xianghua and Ms. Choy Hok Man, Constance will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the directors' rights to subscribe for shares in the Company at the balance sheet date, which were also recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Number of share options to subscribe for shares in the Company			Date of grant/ acceptance	Exercise period	Exercise price per share
	At the beginning of the year	Granted during the year	At the end of the year			
Cao Zhong	–	8,026,000	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.58
Yu Jian	–	8,026,000	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.58
Xu Xianghua	–	8,026,000	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.58
Tse Chun Sing	–	4,000,000	4,000,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.58
Leung Shun Sang, Tony	–	4,816,000	4,816,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.58
Chan Wah Tip, Michael	–	400,000	400,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.58
Liu Wei	–	400,000	400,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.58
Choy Hok Man, Constance	–	400,000	400,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.58
	–	<u>34,094,000</u>	<u>34,094,000</u>			

The above share options were granted pursuant to the Company's share option scheme adopted on 7 June 2002 as detailed in note 29 to the financial statements. Each of the directors paid HK\$1 to the Company as consideration for the share options granted. None of the share options were exercised by the directors during the year.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or 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.

Report of the Directors ▶

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

At the balance sheet date, none of the directors, chief executive or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest 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 COMPETING BUSINESSES

During the year, no director has been recorded as having interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

Name of shareholder	<i>Notes</i>	Number of ordinary shares held
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	1	371,649,069
Shougang Concord Grand (Group) Limited ("Shougang Grand")	1	371,649,069
SCG Investment (B.V.I.) Limited ("SCGI")	2	371,649,069
Grand Phoenix Limited ("Grand Phoenix")	3	371,649,069
Upper Nice Assets Ltd. ("Upper Nice")	3	240,342,569
Jeckman Holdings Limited ("Jeckman")	3	131,306,500

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

1. Shougang Holding was the holding company of Shougang Grand and the interests held by Shougang Grand were included in the interests held by Shougang Holding. Shougang Grand was deemed to be interested in the shares held by SCGI by virtue of its 100% shareholding in SCGI.
2. SCGI was a wholly-owned subsidiary of Shougang Grand and its interests were included in the interests held by Shougang Grand. SCGI was deemed to be interested in the shares held by Grand Phoenix by virtue of its 100% shareholding in Grand Phoenix.
3. Grand Phoenix was a wholly-owned subsidiary of SCGI and its interests were included in the interests held by SCGI. Grand Phoenix was deemed to be interested in the shares held by Upper Nice and Jeckman by virtue of its 100% shareholding in Upper Nice and Jeckman.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the year.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company did not have any reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

The Company's capital reserve represents a non-distributable reserve.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers accounted for less than 30% of the total sales for the year and purchases from the five largest suppliers accounted for less than 30% of the total purchases for the year.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

CONNECTED TRANSACTIONS

- (i) A conditional waiver has been given by the Stock Exchange from strict compliance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") by the Company for the purchase of copper sheets and brass sheets by Santai Manufacturing Limited ("Santai"), a wholly-owned subsidiary of the Company, from Hing Cheong Metals (China & Hong Kong) Limited, an indirect 91% owned subsidiary of Shougang Concord Century Holdings Limited.

The above transactions which took place during the year, as long as they constituted connected transactions for the Company pursuant to the Listing Rules, have been reviewed by the independent non-executive directors of the Company who have confirmed the following:

- (a) the transactions were entered into in the ordinary and usual course of business of Santai;
- (b) the transactions were conducted on normal commercial terms that are fair and reasonable so far as the shareholders of the Company, taken a whole, are concerned;
- (c) the transactions were entered into on terms that are no less favourable than terms available from independent third parties; and
- (d) the aggregate amount of the transactions did not exceed the limit being the higher of HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at 31 December 2002.

The auditors of the Company have reviewed the transactions and confirmed the following:

- (a) the transactions were approved by the board of directors of the Company;
- (b) the transactions were entered into in accordance with the terms of the agreements governing such transactions;
- (c) the transactions have been entered into in accordance with the pricing policies of the Group being the published prices and conditions offered by similar suppliers to the Group; and
- (d) the aggregate amount of the transactions did not exceed the limit being the higher of HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at 31 December 2002.

CONNECTED TRANSACTIONS (continued)

- (ii) On 30 July 2002, the Group entered into a subscription agreement with a wholly-owned subsidiary of Shougang Holding (the "First Subscriber") and a wholly-owned subsidiary of Cheung Kong (Holdings) Limited (the "Second Subscriber") pursuant to which a wholly-owned subsidiary of the Company had conditionally agreed to issue and the First and Second Subscribers had conditionally agreed to subscribe, in cash, for the 2.5% convertible bonds due in 2004 with an aggregate principal amount of HK\$200 million (the "Convertible Bonds"). The Company intends to use the net proceeds from the issue of the Convertible Bonds to fund an investment opportunity, with the remaining for general corporate and working capital of the Group. The subscription agreement was approved by the independent shareholders of the Company at an extraordinary general meeting held on 16 September 2002 and was completed on 20 September 2002. Details of the issue of the Convertible Bonds are set out in the Company's announcement dated 31 July 2002 and the Company's circular to shareholders dated 21 August 2002. The issue of Convertible Bonds to the First Subscriber constituted a connected transaction for the Company.
- (iii) On 25 September 2002, a wholly-owned subsidiary of the Company entered into a conditional agreement with Shanghai Jinling Holdings Company Limited ("Jinling") for the disposal of 60.2% equity interest (the "Disposal") in Shanghai Printronics Circuit Corporation ("Shanghai Printronics") which was engaged in the business of manufacturing and sale of printed circuit boards in the People's Republic of China, for a consideration of approximately HK\$45,200,000 (RMB48,000,000). As at the date of the conditional agreement, Shanghai Printronics was held as to 39.8% by Jinling. The Disposal was approved by the Company's shareholders at an extraordinary general meeting held on 8 November 2002. The Disposal was completed on 3 December 2002. Details of the Disposal are set out in the Company's announcement dated 25 September 2002 and the Company's circular to shareholders dated 16 October 2002.

Save as aforesaid and as far as the transactions which took place in the year are concerned, transactions as set out in notes 36(i) to 36(iii) to the financial statements under the heading "Related party transactions" were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The transactions as set out in notes 36(iv) to 36 (vii) to the financial statements under the heading "Related party transactions" did not constitute connected transactions.

DONATIONS

No charitable donations were made during the year.

Report of the Directors ▶

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules throughout the period covered by this annual report, except in relation to paragraph 7, as the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. The Audit Committee comprises the three independent non-executive directors, namely Mr. Chan Wah Tip, Michael, Mr. Liu Wei and Ms. Choy Hok Man, Constance. Its principal duties include the review of the Company's financial reporting process, internal controls and the results of the Group. A meeting of the Audit Committee was held on 2 April 2003 for, amongst other things, reviewing the final results of the Group for the financial year ended 31 December 2002.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board

Cao Zhong

Chairman

Hong Kong, 16 April 2003