

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company from June 25, 2002 (the date of incorporation) to December 31, 2002 and of the Group for the year ended December 31, 2002.

REORGANISATION AND LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company was incorporated with limited liability in the Cayman Islands on June 25, 2002.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the group (the "Group") on December 13, 2002.

Details of the Group Reorganisation are set out in note 1 to the financial statements.

The shares of the Company were listed on the Stock Exchange with effect from January 6, 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 13 to the financial statements.

RESULTS AND APPROPRIATION

The results and appropriation of the Group for the year ended December 31, 2002 are set out in the consolidated income statement on page 23 of the annual report.

A special dividend of approximately HK\$15 million was paid by a wholly-owned subsidiary of the Company to its then shareholders prior to the Group Reorganisation. The directors do not recommend the payment of a dividend by the Company for the year.

INVESTMENT PROPERTY

As detailed in note 11 to the financial statements, during the year, the Group disposed of its investment property at its carrying value of approximately HK\$2.2 million.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$16.2 million on plant and machinery to expand and upgrade its manufacturing facilities.

Details of this and other movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the period are set out in note 21 to the financial statements.

DIRECTORS

The directors of the Company during the period and up to the date of this report were:

Executive directors:

Thomas Lau, Luen-hung	(appointed on September 30, 2002)
Tsang Chiu Wai	(appointed on June 25, 2002)
Kong Cheuk Luen, Trevor	(appointed on September 30, 2002)

Independent non-executive directors:

Lee Tho Siem	(appointed on September 30, 2002)
Wong Wing Sing	(appointed on September 30, 2002)
Wang Jianguo	(appointed on December 11, 2002)

In accordance with Article 95 of the Company's Articles of Association, Thomas Lau, Luen-hung, Kong Cheuk Luen, Trevor, Lee Tho Siem, Wong Wing Sing and Wang Jianguo retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing December 1, 2002 which shall continue thereafter until terminated by either party giving to the other party not less than six months prior written notice, such notice not to be given earlier than December 1, 2003.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each independent non-executive director is the period from his appointment to the time of retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' INTERESTS IN SECURITIES

The Company became a listed company on January 6, 2003. The interests of the directors and their associates in the share capital of the Company, 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") at that date, were as follows:

Name of director	Nature of interest	Number of ordinary shares of the Company held
		(note iv)
Thomas Lau, Luen-hung	Corporate interest (note i)	56,958,000
Tsang Chiu Wai	Corporate interest (note ii)	56,232,000
Kong Cheuk Luen, Trevor	Corporate interest (note iii)	28,006,000

Notes:

- (i) These securities are registered in the name of, and beneficially owned by Shine Top Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Thomas Lau, Luen-hung. Accordingly, Thomas Lau, Luen-hung is deemed to be interested in 56,958,000 shares held by Shine Top Limited under the SDI Ordinance.
- (ii) These securities are registered in the name of, and beneficially owned by Standard Beyond Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Tsang Chiu Wai. Accordingly, Tsang Chiu Wai is deemed to be interested in 56,232,000 shares held by Standard Beyond Limited under the SDI Ordinance.
- (iii) These securities are registered in the name of, and beneficially owned by Absolute Above Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Kong Cheuk Luen, Trevor. Accordingly, Kong Cheuk Luen, Trevor is deemed to be interested in 28,006,000 shares held by Absolute Above Limited under the SDI Ordinance.
- (iv) There is no change in the interests of the directors in the share capital of the Company since December 31, 2002 except for taking into account the completion of capitalisation issue and share offer as set out in Appendix V to the prospectus issued by the Company dated December 19, 2002.

Save as disclosed above, none of the directors or chief executives, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 22 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors or chief executives, nor any of their spouses or

children under the age of eighteen, had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

SUBSTANTIAL SHAREHOLDERS

Other than as disclosed under the section headed "DIRECTORS' INTERESTS IN SECURITIES", the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at December 31, 2002.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 67.1% of the turnover of the Group and the largest customer accounted for approximately 24.4% of the total turnover of the Group. Everhope Industrial Limited ("Everhope"), one of the five largest customers, accounted for approximately 8.9% of the Group's turnover for the year. Kong Cheuk Luen, Trevor and Wong Kit Yue, spouse of Kong Cheuk Luen, Trevor, had beneficial interests in Everhope until May 30, 2002, on which date, they disposed of their entire interests in Everhope to the Group.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 58.5% of the total purchases of the Group and the largest supplier accounted for approximately 13.7% of the total purchases of the Group.

Save as disclosed above, at no time during the year did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the directors owns more than 5% of the Company's issued share capital, have an interest in any of the five largest customers and suppliers of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied in the period between the listing date and the date of this report, with the Code of Best Practice set out in Appendix 14 of the Listing Rules.

The Company's audit committee was formed on December 11, 2002, comprising the independent non-executive directors at the time, Lee Tho Siem, Wong Wing Sing and Wang Jianguo.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 32 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company at the time of its incorporation on June 25, 2002. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint them as auditors.

On behalf of the Board

Thomas Lau, Luen-hung

Chairman

Hong Kong, April 9, 2003