

18 DIRECTORS' REPORT

The directors ("Directors") of Wang Sing International Holdings Group Limited ("Company") present their first report and the audited financial statements of the Company and its subsidiaries (Collectively, the "Group") for the year ended 31 December 2002.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 26 June 2001 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a special resolution passed on 23 July 2001, the name of the Company was changed from Wang Sing International Limited to Wang Sing International Holdings Group Limited.

Pursuant to a corporate reorganisation ("Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 11 April 2002. Details of the Group Reorganisation are set out in the prospectus of the Company dated 16 April 2002 ("Prospectus").

The shares of the Company have been listed on the Main Board of the Stock Exchange since 26 April 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

Details of the principal activities of the subsidiaries of the Company are set out in note 33 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 28.

An interim dividend of HK2 cents per share, amounting to HK\$6,720,000, was paid to the shareholders during the year.

The Directors recommend the payment of a final dividend of HK1 cent per share in respect of the year ended 31 December 2002, to the shareholders whose names appear on the register of members of the Company on 11 July 2003.

MAJOR SUPPLIERS AND CUSTOMERS

The top five suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

The largest and the top five customers of the Group accounted for about 46% and 65% respectively of the Group's total turnover for the year.

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 share capital) have any beneficial interest in any of the Group's five largest customers during the year.

PROPERTY, PLANT AND EQUIPMENT

The Group's land use rights were revalued on 28 February 2002. The valuation resulted in a surplus over book value amounting to HK\$25,234,000, which has been credited directly to the revaluation reserve.

During the year, the Group acquired equipment of approximately HK\$7,660,000. Construction in progress of approximately HK\$27,431,000 was completed and transferred to the buildings.

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements during the period from 26 June 2001 (date of incorporation) to 31 December 2002 ("Period") in the share capital of the Company are set out in note 25 to the financial statements.

The net proceeds raised from the listing of the shares of the Company were mainly applied in the construction of the new production plant, purchase of equipment and general working capital of the Group.

During the Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of movements during the year in the reserves of the Company and of the Group are set out in the consolidated statement of changes in equity on pages 31 and 32 and note 26 respectively, to the financial statements.

DIRECTORS

The Directors during the Period and up to the date of this report were as follows:

executive Directors:

Chen Wai Yuk (appointed on 13 July 2001)
Wang Shu (appointed on 13 July 2001)
Chen Wai Wah (appointed on 1 April 2002)
Weng Shao Bo (appointed on 1 April 2002 and resigned on 8 October 2002)

independent non-executive Directors:

Ho Hao Veng (appointed on 1 April 2002)
Wei Tong Li (appointed on 1 April 2002)

In accordance with the provisions of the Company's articles of association, Chen Wai Wah shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 12 to 17 of the annual report.

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 1 April 2002 (except for Mr. Weng Shao Bo who resigned as an executive Director, with effective from 8 October 2002), which continues thereafter until terminated by either party giving not less than three 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 or is proposed to have 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 SHARES

As at 31 December 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 Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of Director	Number of ordinary shares held				Total interests
	Personal interests	Family interests	Corporate interests	Other interests	
Ms. Chen Wai Yuk	–	–	252,000,000 (a)	–	252,000,000

(a) These shares were held by Twinning Wealth Limited, the entire issued capital of which is beneficially owned by Ms. Chen Wai Yuk.

Ms. Chen Wai Yuk beneficially owned one share of US\$1 in Twinning Wealth Limited, an associated corporation (within the meaning of the SDI Ordinance) of the Company, representing the entire issued shares in Twinning Wealth Limited.

SHARE OPTION SCHEME

The Company operates a share option scheme ("Share Option Scheme") for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include (i) any employee or proposed employee (whether full time or part time, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds any equity interest; (ii) any non-executive director or proposed non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier or potential supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer or potential customer of the Group or any Invested Entity; (v) any person or entity that provides or will provide research, development or other technological support to the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any joint venture partner or business alliance that co-operates with any member of the Group or any Invested Entity in any area of business operation or development. The Share Option Scheme became effective on 26 April 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 11 April 2002.

SHARE OPTION SCHEME (continued)

As at the date of this annual report, the total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group is 33,600,000, representing 10% of the issued share capital of the Company as at the date of listing of the Company's shares on the Stock Exchange. The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares as at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

As at the date of this report, no share options have been offered and/or granted to any eligible participants under the Share Option Scheme.

The Directors consider it was inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the date of this report. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The directors of the Company believe that any calculation of the value of options as at the date of this report based on a number of speculative assumptions would not be meaningful.

SHARE OPTION SCHEME (continued)

Any options to be granted under the Share Option Scheme would not be recorded in the Company's or the Group's balance sheet until such time as the share options were exercised, and no charge would be recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued would be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares would be recorded by the Company in the share premium account. Share options which were cancelled prior to their exercise dates would be deleted from the register of outstanding share options.

The Company's share option scheme is also set out in note 30 to the financial statements.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Option Scheme" above, at no time during the Period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executives, nor any of their respective spouse or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than in connection with the Group Reorganisation in preparation for the Company's initial public offerings, no contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of Company were entered into or in existence during the year under review.

CONNECTED TRANSACTIONS

As disclosed in note 32 to the financial statements, during the year, the Group accrued subcontracting fees amounting to HK\$1,698,000 payable to companies in which Mr. Weng Shao Bo, a former Director of the Company, had beneficial interests. In April 2003, the Group formally terminated the subcontracting agreements, details of which are set out in note 2 to the financial statements.

CONNECTED TRANSACTIONS (continued)

The independent non-executive Directors have confirmed that the transactions were entered into: (i) in the ordinary course of business; (ii) on normal commercial terms; (iii) in accordance with the terms of the agreements governing such transaction; (iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (v) the aggregate amount payable under the subcontracting agreements did not exceed the amount stated in such agreements and 3% of the consolidated net tangible assets of the Group for the year ended 31 December 2002.

COMPETING BUSINESS

As disclosed in the paragraph headed "Connected transactions" above and note 2 to the financial statement, Mr. Weng Shao Bo, a former executive Director who resigned from his office with effect from 8 October 2002, owns approximately 94.9% of the interests in Hai An Xian Electronic Meter Factory ("Hai An") and 82% of the equity interests in Hai An Xian Tian Yuan Power Tools Manufacture Company Limited ("Tian Yuan") respectively based on the information available to the Directors. Both Hai An and are domestic enterprises established in the PRC which are principally engaged in the manufacture and sale of power tools. Mr. Weng is hence interested in a business which competes or is likely to compete with the Group's business.

Since October 2001, the Group has subcontracted the entire production facilities of both Hai An and Tian Yuan pursuant to two subcontracting agreements made between the Group and each of Hai An and Tian Yuan for a term of two years from 1 October 2001 to 30 September 2003. Details of the subcontracting agreements are more particularly described in the paragraph headed "Connected transactions" under this report and note 2 to the financial statements. On 4 April 2003, the Group formally terminated the subcontracting agreements as a result of the breaches by Hai An and Tian Yuan of the subcontracting agreements, particulars of which was announced by the Company and published in The Standard and Hong Kong Economic Times on 10 April 2003. Subsequent to the termination of the subcontracting agreements, the Group may face competition from Hai An and Tian Yuan. However, given that the Group has two production bases of its own and an established network of close to 50 suppliers in the PRC, the Directors consider that the Group is capable of carrying on its business independent of Hai An and Tian Yuan.

SUBSTANTIAL SHAREHOLDERS

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

Name of shareholder	Number of shares	Approximate percentage of shareholding
Twinning Wealth Limited (<i>Note</i>)	252,000,000	75%

Note: The entire issued share capital in Twinning Wealth Limited is beneficially owned by Ms. Chen Wai Yuk. Mr. Wang Shu is deemed to be interested in these Shares as the spouse of Ms. Chen Wai Yuk by virtue of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS (continued)

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

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last four financial years is set out on page 57.

CORPORATE GOVERNANCE

The Company has complied throughout the Period between date of listing of its shares to 31 December 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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, 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, SALE OR REDEMPTION OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 2 to the financial statements.

AUDITORS

A resolution has been proposed at the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chen Wai Yuk
Chairman

24 April 2003