

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 July 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 13 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest suppliers accounted for 35% of the Group's total purchases. The largest supplier accounted for 18% of the Group's total purchases.

During the year, the Group's five largest customers accounted for 90% of the Group's total sales. The largest customer accounted for 39% of the Group's total turnover.

Save as disclosed in note 26 to the financial statements, neither the directors, their associates nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, held any interest in the Group's five largest customers or suppliers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 July 2003 are set out in the consolidated income statement on page 17 and the accompanying notes to the financial statements. As at 31 July 2003, the Company did not have any reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended). Accordingly, the directors do not recommend the payment of a dividend in respect of the year ended 31 July 2003.

FINANCIAL SUMMARY

A financial summary of the published results of the Group and its assets and liabilities for the last five financial periods is set out on page 64. The summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 18 to the financial statements.

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RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 21 and note 19 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Leung Yu Oi Ling, Irene

Leung Chi Yin, Gillian

Chan Kim Leung

(redesignated as executive director on 27 September 2002)

(resigned on 27 September 2002)

Independent non-executive directors:

Pao Ping Wing

Yuen Ming Fai, Matthew

In accordance with clause 99(A) as amended by clause 182 (vi) of the Company's Bye-Laws, Miss Leung Chi Yin, Gillian will retire and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

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

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

Save as disclosed in note 26 to the financial statements, 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.

Save as disclosed in note 26 to the financial statements, the directors are not aware of any connected transactions not otherwise dealt with in this report.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme as further detailed in note 22 to the financial statements, the Company has granted to certain directors of the Company rights to subscribe for shares in the capital of the Company. Details of the movements during the period in the share options granted to the directors of the Company were as follows:

Name of director	Subscription Price	Exercise Period	Number of share options		
			Granted during the period	Exercised during the period	At 31 July 2003
Leung Yu Oi Ling, Irene ("Mrs. Leung")	HK\$0.024	<i>Note 1</i>	9,083,000	–	9,083,000
Leung Chi Yin, Gillian ("Miss Leung")	HK\$0.024	<i>Note 1</i>	9,083,000	9,083,000	–
Decorling Limited (<i>Note 2</i>)	HK\$0.024	<i>Note 1</i>	9,083,000	9,083,000	–
Bugsy Development Co. Ltd. (<i>Note 3</i>)	HK\$0.024	<i>Note 1</i>	9,083,000	9,083,000	–

Note 1: Period from 16 April 2003 to 30 December 2012.

Note 2: Decorling Limited ("Decorling") is 100% owned by Mrs. Leung.

Note 3: Mrs. Leung holds one share in Bugsy Development Co. Ltd. ("Bugsy") on trust for Harbour Front and all other shares in Bugsy are held by Harbour Front. Details of Harbour Front is set out in note 1 of "DIRECTORS' INTERESTS IN SHARES" on page 11 to the financial statements.

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

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DIRECTORS' INTERESTS IN SHARES

As at 31 July 2003, the interests and short positions of the Directors in the Shares or the underlying Shares, if any, of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Interests in the Company

Name of Director	Number of Shares and nature of interest	
	Personal	Other
Leung Yu Oi Ling, Irene	445,500	430,388,499 (Notes 1, 2 and 3)
Leung Chi Yin, Gillian	9,233,000	421,305,499 (Notes 1 and 3)

Note 1: 412,222,499 ordinary shares of the Company are held by Harbour Front or its designated nominees, as the trustee of a unit trust. All of the units in the unit trust are beneficially owned by a discretionary trust, the beneficiaries of which are Mrs. Leung and her children, namely, Miss Leung, Mr. Leung Chi Hong, Jerry and Mr. Leung Kai Hong (aged under 18).

Note 2: 9,083,000 ordinary shares of the Company are held by Decorling, which is 100% beneficially owned by Mrs. Leung.

Note 3: 9,083,000 ordinary shares of the Company are held by Buggy Development Company Limited ("Buggy"). Mrs. Leung holds one share in Buggy on trust for Harbour Front and all other shares in Buggy are held by Harbour Front. Reference is made to the above note 1 concerning the interest of Mrs. Leung and Miss Leung in Harbour Front.

Save as disclosed in this paragraph, as at the date of this report, none of the Directors or chief executive of the Company had interests in the Shares or the underlying Shares, if any, of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

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There was no contract or arrangement subsisting at the date of this report in which any of the Directors was materially interested and which was significant in relation to the business of the Group taken as a whole.

SUBSTANTIAL SHAREHOLDERS

As at the date of this report, so far as is known to any Director or chief executive of the Company, the following persons had an interest or short position in the Shares or underlying Shares, if any, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital:

Interests in Shares

Name	Number of Shares
Harbour Front	421,305,499
Mr. Matthew O'Driscoll (Note 1)	252,306,195
Value Partners Investment Limited	61,153,097

Note:

- (1) Mr. Matthew O'Driscoll is the Scheme Administrator of the Scheme, and holds 252,306,195 Shares on trust for the creditors of the Scheme pending distribution pursuant to the terms of the Scheme.

Save as disclose above, as at the date of this report, the Directors and the chief executive of the Company were not aware of any person who had an interest or short position in the Shares or underlying Shares, if any, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

POST BALANCE SHEET EVENT

Particulars of the significant event which occurred after the balance sheet date are set out in note 28 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

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COMPLIANCE WITH THE CODE OF BEST PRACTICE

In compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company established an Audit Committee on 2 January 1999, comprising two independent non-executive directors. The primary duties of the Audit Committee are to review and advise on the problems on the audit and the financial reporting process.

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by this Annual Report, except that the independent non-executive directors of the Company are not employed for specific term, but are subject to retirement and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Grant Thornton as auditors of the Company.

On behalf of the Board

Leung Yu Oi Ling, Irene

Chairman

Hong Kong

27 November 2003