

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 32 to 80.

The directors do not recommend the payment of any dividends in respect of the year.

SUMMARY 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 published audited financial statements and restated as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting deferred tax, as detailed in note 2 to the financial statements.

	Year ended 31 December				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
Turnover	820,168	666,989	709,195	1,208,670	534,996
Profit/(loss) from operating activities	(21,225)	(32,502)	(51,808)	38,935	33,175
Share of loss of associates	(1,938)	(3,518)	-	-	(65)
Profit/(loss) before tax	(23,163)	(36,020)	(51,808)	38,935	33,110
Tax	17,524	(2,838)	5,284	(4,119)	(3,048)
Profit/(loss) before minority interests	(5,639)	(38,858)	(46,524)	34,816	30,062
Minority interests	(598)	(555)	353	524	-
Net profit/(loss) attributable to shareholders	(6,237)	(39,413)	(46,171)	35,340	30,062

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SUMMARY FINANCIAL INFORMATION *(continued)*

	2003 HK\$'000	31 December			
		2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)
ASSETS AND LIABILITIES					
Total assets	717,851	657,685	594,998	702,881	489,276
Total liabilities	(476,201)	(430,720)	(395,186)	(473,501)	(291,160)
Minority interests	(2,124)	(1,233)	(402)	(392)	(619)
	239,526	225,732	199,410	228,988	197,497

FIXED ASSETS AND INVESTMENT PROPERTY

Details of the movements in the fixed assets and investment property of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserves available for cash distribution and/or distribution in specie calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$75,484,000. In addition, the Company's share premium account, in the amount of HK\$94,478,000, may be distributed in the form of fully paid bonus shares.

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MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 33% of the Group's total sales for the year and sales to the Group's largest customer included therein amounted to 11%. Purchases from the Group's five largest suppliers accounted for less than 20% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Lin Chun Kuei	<i>(Chairman and chief executive officer)</i>
Mr. Kam Wing Leung	<i>(Co-vice chairman)</i>
Dr. Denk Gunter M.	<i>(Co-vice chairman)</i>
Mr. Ng Kin Nam	
Mr. Guo Yah Taur (alias Peter Ya Tao Kuo)	
Mr. He Jing Guang	
Mr. Li Chien Kuan	
Mr. Lin Chun Fu	
Mr. Pope Graeme Stanley	

Non-executive director

Mr. Halim Andree

Independent non-executive directors

Hon. Chan Bernard Charnwut
Mr. Goh Gen Cheung

Subsequent to the balance sheet date, on 29 February 2004, Dr. Denk Gunter M. resigned as a Co-vice chairman and executive director of the Company, and Mr. Kam Wing Leung resigned as a Co-vice chairman and remained as an executive director of the Company. On 1 March 2004, Mr. Ng Kin Nam was appointed as a Co-vice chairman of the Company, and Mr. Halim Andree was redesignated to hold the office of executive director and appointed as a Co-vice chairman of the Company.

In accordance with bye-law 111 of the Company's bye-laws, Messrs. Kam Wing Leung and Lin Chun Fu will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the non-executive directors but excluding the chairman, the managing director and the vice chairmen, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

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DIRECTORS' SERVICE CONTRACTS

Messrs. Lin Chun Kuei, Lin Chun Fu, Kam Wing Leung and Li Chien Kuan, executive directors, entered into service agreements with the Company for a term of three years commencing from 1 December 1997, which are renewable automatically for successive terms of one year each, until terminated by not less than six months' notice in writing served by either party on the other.

Dr. Denk Gunter M., an executive director, has entered into a service agreement with the Company for a term of four years and five months commencing from 23 December 1999, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other. Dr. Denk resigned as executive director and Co-vice chairman on 29 February 2004. His service agreement with the Company terminated starting from 1 March 2004.

Mr. He Jing Guang, an executive director, has entered into a service agreement with the Company for a term of one year commencing from 1 May 2000, renewable automatically for successive terms of one year, until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Pope Graeme Stanley, an executive director, has entered into a service agreement with the Company, through a service company beneficially owned by him, for a term of one year commencing from 22 May 2000, renewable automatically for successive terms of one year, until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Guo Yah Taur (alias Peter Ya Tao Kuo), an executive director, has entered into a service agreement with the Company for a term of three years commencing from 30 March 2001, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Mr. Ng Kin Nam, an executive director, has entered into a service agreement with the Company for a term of three years commencing from 1 August 2002, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Mr. Halim Andree, being redesignated to hold the office of executive director on 1 March 2004, has entered into a service agreement with the Company for a term of three years commencing from 1 March 2004, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Apart from the foregoing, 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' INTERESTS IN CONTRACTS

Apart from the service agreement entered between the Company and a service company beneficially owned by an executive director as mentioned in the section "Directors' service contracts" above, no director had a beneficial interest, either direct or indirect, 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.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Personal	Family	Corporate		
Mr. Lin Chun Kuei		74,873,200	-	-	74,873,200	10.24
Mr. Lin Chun Fu		33,690,800	-	-	33,690,800	4.61
Mr. Halim Andree	1	-	-	102,300,000	102,300,000	14.00
Mr. Ng Kin Nam	2	23,157,200	7,601,000	88,359,800	119,118,000	16.30
Mr. He Jing Guang		8,013,720	-	-	8,013,720	1.10
Dr. Denk Gunter M.	3	16,760,000	1,091,200	-	17,851,200	2.44
		156,494,920	8,692,200	190,659,800	355,846,920	48.69

Notes:

- The entire issued share capital of KMP Atlantic Limited is beneficially owned as to 90% by KMP Equities Holding Ltd., which entire issued share capital is in turn owned as to 50% each by Mr. Salim Anthoni and Mr. Halim Andree. Accordingly, Mr. Halim Andree is deemed to be interested in the 102,300,000 shares beneficially owned by KMP Atlantic Limited.
- Jade Investment Limited is the beneficial owner of 88,359,800 shares. The entire issued share capital of Jade Investment Limited is beneficially owned as to 50% each by Mr. Ng Kin Nam and Ms. Angeleslao Jocelyn O., the spouse of Mr. Ng Kin Nam. Accordingly, Mr. Ng Kin Nam is deemed to be interested in the 88,359,800 shares beneficially owned by Jade Investment Limited.

Mr. Ng Kin Nam is also deemed to be interested in the 7,601,000 shares beneficially owned by Ms. Angeleslao Jocelyn O..
- Dr. Denk Gunter M. is the beneficial owner of 16,760,000 shares and is deemed to be interested in the 1,091,200 shares beneficially owned by Ms. Denk Angelika, his spouse. Dr. Denk resigned as executive director and Co-vice chairman of the Company on 29 February 2004.

In addition to the above, certain directors hold shares in certain subsidiaries of the Company, in a non-beneficial capacity, solely for the purpose of complying with minimum company membership requirements.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Save as disclosed herein, at 31 December 2003, none of the Directors nor the chief executives of the Company had or was deemed to have registered an interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option scheme are set out in note 29 to the financial statements.

No share options were granted or exercised during the year.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, other than the Directors or the chief executives of the Company, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Angeleslao Jocelyn O.	1	Through a controlled corporation	88,359,800	12.09
	1	Directly beneficially owned	7,601,000	1.04
	1	Through the spouse	23,157,200	3.17
			<hr/>	
			119,118,000	16.30
KMP Atlantic Limited	2	Directly beneficially owned	102,300,000	14.00
KMP Equities Holding Ltd.	2	Through a controlled corporation	102,300,000	14.00
Salim Anthoni	2	Through a controlled corporation	102,300,000	14.00
Siti Jusuf	2	Through the spouse	102,300,000	14.00
Jade Investment Limited	3	Directly beneficially owned	88,359,800	12.09
Lin Huang Su Feng	4	Through the spouse	74,873,200	10.24
Huang Chun Chieh	5	Directly beneficially owned	41,213,000	5.64
	5	Through the spouse	10,000,000	1.37
			<hr/>	
			51,213,000	7.01
Huang Chiu Kuei	6	Directly beneficially owned	10,000,000	1.37
	6	Through the spouse	41,213,000	5.64
			<hr/>	
			51,213,000	7.01

Notes:

- Ms. Angeleslao Jocelyn O. is the spouse of Mr. Ng Kin Nam, an executive director of the Company, and the beneficial owner of 50% of the existing issued share capital of Jade Investment Limited. Accordingly, she is deemed to be interested in the 23,157,200 shares beneficially owned by Mr. Ng Kin Nam and the 88,359,800 shares beneficially owned by Jade Investment Limited. She is also the beneficial owner of 7,601,000 shares. The interests of Mr. Ng Kin Nam are disclosed under the heading "Directors' interests and short positions in shares and underlying shares".
- The entire issued share capital of KMP Atlantic Limited is beneficially owned as to 90% by KMP Equities Holding Ltd., which entire issued share capital is in turn owned as to 50% each by Mr. Salim Anthoni and Mr. Halim Andree, a non-executive Director. Accordingly, each of KMP Equities Holding Ltd., Mr. Salim Anthoni and Mr. Halim Andree is deemed to be interested in the 102,300,000 shares beneficially owned by KMP Atlantic Limited. The interests of Mr. Halim Andree are disclosed under the heading "Directors' interests and short positions in shares and underlying shares". Mr. Halim Andree was redesignated to hold the office of executive director on 1 March 2004.

Ms. Siti Jusuf is the spouse of Mr. Salim Anthoni. Accordingly, Ms. Siti Jusuf is deemed to be interested in the 102,300,000 shares beneficially owned by KMP Atlantic Limited.

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

3. Jade Investment Limited is the beneficial owner of 88,359,800 shares.
4. Madam Lin Huang Su Feng is the spouse of Mr. Lin Chun Kuei, an executive director of the Company. Accordingly, she is deemed to be interested in the 74,873,200 shares which are beneficially owned by Mr. Lin Chun Kuei.
5. Mr. Huang Chun Chieh is the beneficial owner of 41,213,000 shares and is deemed to be interested in the 10,000,000 shares beneficially owned by his spouse, Ms. Huang Chiu Kuei (also known as Huang Qiu Gu).

According to a Form 1 of Individual Substantial Shareholder Notice filed with the Stock Exchange on 7 April 2004, his attributable percentage of shareholding decreased to 5.93%.

6. Ms. Huang Chiu Kuei (also known as Huang Qiu Gu) is the beneficial owner of 10,000,000 shares and is deemed to be interested in the 41,213,000 shares beneficially owned by her spouse, Mr. Huang Chun Chieh.

According to a Form 1 of Individual Substantial Shareholder Notice filed with the Stock Exchange on 7 April 2004, her attributable percentage of shareholding decreased to 5.93%.

Save as disclosed above, no person, other than the directors and the chief executives of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

In the current year, the Group provided a corporate guarantee of approximately HK\$14,428,000 on the banking facilities granted to Heissner AG, a 99.1% owned subsidiary of the Group. The total banking facilities granted by the bankers in this respect and the amount utilised as at 31 December 2003 were approximately HK\$78,645,000 and HK\$77,971,000, respectively.

During the year, the Group entered into two loan agreements in the amount of HK\$3,900,000 and HK\$7,800,000, respectively with Mr Lin Chun Kuei and Jade Investment Limited, a company beneficially owned by Mr. Ng Kin Nam, a director of the Company, and his spouse. The loans were interest-free and were subsequently capitalised as share capital of the Company.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

Report of the Directors

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

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

On behalf of the Board

Lin Chun Kuei

Chairman

Hong Kong, 16 April 2004