

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

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 and high precision metal parts.

RESULTS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 82.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 29 to the financial statements.

Report of the Directors

DIRECTORS

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

Cao Zhong

Yu Jian

Luo Zhenyu

(appointed on 29 April 2003)

Tse Chun Sing

Chen Jang Fung

(appointed on 17 November 2003)

Xu Xianghua

Leung Shun Sany, Tony

Chan Wah Tip, Michael*

Liu Wei*

Choy Hok Man, Constance*

* *Independent non-executive directors*

Subsequent to the balance sheet date:

- (i) Mr. Yuan Wenxin was appointed as a director of the Company with effect from 6 January 2004; and
- (ii) Ms. Xu Xianghua resigned as a director of the Company with effect from 13 April 2004.

In accordance with clauses 94 and 103(A) of the Company's articles of association, Mr. Cao Zhong, Mr. Yuan Wenxin, Mr. Chen Jang Fung, Mr. Leung Shun Sang, Tony and Mr. Liu Wei will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At the balance sheet date, the interests of the Company's directors in the underlying shares of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

Long positions in underlying shares of the Company attached to the share options granted by the Company

Name of director	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	% to the issued share capital as at 31.12.2003
	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\$0.580	Beneficial owner	3.36%
	–	32,106,000	32,106,000*	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700	Beneficial owner	
	8,026,000	32,106,000	40,132,000					
Yu Jian	8,026,000	–	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580	Beneficial owner	2.02%
	–	16,052,000	16,052,000*	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700	Beneficial owner	
	8,026,000	16,052,000	24,078,000					
Luo Zhenyu	–	6,043,000	6,043,000	14.3.2003	14.3.2003 – 13.3.2013	HK\$0.495	Beneficial owner	1.51%
	–	12,040,000	12,040,000*	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700	Beneficial owner	
	–	18,083,000	18,083,000					

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(continued)

Long positions in underlying shares of the Company attached to the share options granted by the Company (continued)

Name of director	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	% to the issued share capital as at 31.12.2003
	At the beginning of the year	Granted during the year	At the end of the year					
Tse Chun Sing	4,000,000	–	4,000,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580	Beneficial owner	1.21%
	–	10,434,000	10,434,000*	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700	Beneficial owner	
	<u>4,000,000</u>	<u>10,434,000</u>	<u>14,434,000</u>					
Xu Xianghua	8,026,000	–	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580	Beneficial owner	0.67%
Leung Shun Sang, Tony	4,816,000	–	4,816,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580	Beneficial owner	0.67%
	–	3,200,000	3,200,000	14.3.2003	14.3.2003 – 13.3.2013	HK\$0.495	Beneficial owner	
	<u>4,816,000</u>	<u>3,200,000</u>	<u>8,016,000</u>					
Chan Wah Tip, Michael	400,000	–	400,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580	Beneficial owner	0.03%
Liu Wei	400,000	–	400,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580	Beneficial owner	0.03%
Choy Hok Man, Constance	400,000	–	400,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580	Beneficial owner	0.03%
	<u>34,094,000</u>	<u>79,875,000</u>	<u>113,969,000</u>					

* The options granted on 13 October 2003 are exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 25% each reaching 100% as from 13 October 2006. All other share options were vested in full at the date of grant.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(continued)

The above share options are unlisted cash settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"), details of which are set out in the section "Share Option Scheme" below. Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.25 each in the share capital of the Company are issuable. The share options are personal to the respective directors.

Save as disclosed above, at the balance sheet date, none of the Company's directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" 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.

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.

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.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

At the balance sheet date, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests in the shares and underlying shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares and underlying shares of the Company

Name of shareholder	Capacity in which interest are held	Number of shares held in the Company		Total interests as to % to the issued share capital as at 31.12.2003	Notes
		Interests in shares (other than equity derivatives)	Interests under cash settled unlisted equity derivatives		
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, Interest of controlled corporation	646,438,220	71,515,152	60.15%	1, 2
Asset Resort Holdings Limited ("Asset Resort")	Beneficial owner	231,515,151	–	19.39%	1
Wheeling Holdings Limited ("Wheeling")	Interest of controlled corporation	371,649,069	–	31.13%	1, 2
Shougang Concord Grand (Group) Limited ("Shougang Grand")	Interest of controlled corporation	371,649,069	–	31.13%	2
SCG Investment (B.V.I.) Limited ("SCGI")	Interest of controlled corporation	371,649,069	–	31.13%	2
Grand Phoenix Limited ("Grand Phoenix")	Interest of controlled corporation	371,649,069	–	31.13%	2
Upper Nice Assets Ltd. ("Upper Nice")	Beneficial owner	240,342,569	–	20.13%	2

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO (continued)

Long positions in the shares and underlying shares of the Company (continued)

Name of shareholder	Capacity in which interest are held	Number of shares held in the Company		Total interests as to % to the issued share capital as at 31.12.2003	Notes
		Interests in shares (other than equity derivatives)	Interests under cash settled unlisted equity derivatives		
Jeckman Holdings Limited ("Jeckman")	Beneficial owner	131,306,500	–	11.00%	2
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interest of controlled corporation	71,515,152	–	5.99%	3, 4
Max Same Investment Limited ("Max Same")	Beneficial owner	71,515,152	–	5.99%	3
Li Ka-Shing	Interest of controlled corporation, founder of a discretionary trust	71,515,152	–	5.99%	4
Li Ka-Shing Unity Trustcorp Limited	Trustee, Beneficiary of a trust	71,515,152	–	5.99%	4
Li Ka-Shing Unity Trustee Company Limited	Trustee	71,515,152	–	5.99%	4
Li Ka-Shing Unity Trustee Corporation Limited	Trustee, Beneficiary of a trust	71,515,152	–	5.99%	4

Report of the Directors

**INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS
DISCLOSABLE UNDER THE SFO** (continued)**Short positions in the shares and underlying shares of the Company**

Name of shareholder	Capacity in which interest are held	Number of shares held in the Company under physically settled unlisted equity derivatives	% to the issued share capital as at 31.12.2003	<i>Notes</i>
Cheung Kong	Interest of controlled corporation	71,515,152	5.99%	3, 4
Max Same	Beneficial owner	71,515,152	5.99%	3
Li Ka-Shing	Interest of controlled corporation, founder of a discretionary trust	71,515,152	5.99%	4
Li Ka-Shing Unity Trustcorp Limited	Trustee, Beneficiary of a trust	71,515,152	5.99%	4
Li Ka-Shing Unity Trustee Company Limited	Trustee	71,515,152	5.99%	4
Li Ka-Shing Unity Trustee Corporation Limited	Trustee, Beneficiary of a trust	71,515,152	5.99%	4

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO (continued)

Short positions in the shares and underlying shares of the Company (continued)

Notes:

1. Asset Resort and Wheeling were both wholly-owned subsidiaries of Shougang Holding and their respective interests were included in the interests held by Shougang Holding.
2. Upper Nice and Jeckman were wholly-owned subsidiaries of Grand Phoenix and their respective interests were included in the interests held by Grand Phoenix. Grand Phoenix was a wholly-owned subsidiary of SCGI and its interests were included in the interests held by SCGI. SCGI was a wholly-owned subsidiary of Shougang Grand and its interests were included in the interests held by Shougang Grand. Shougang Grand was a non wholly-owned subsidiary of Wheeling and its interests were included in the interests held by Wheeling.
3. Max Same was a wholly-owned subsidiary of Cheung Kong and its interests were included in the interests held by Cheung Kong.
4. By virtue of their interests in Cheung Kong, the following person and companies were taken to have a duty of disclosure in the interests held by Cheung Kong:
 - Mr. Li Ka-Shing
 - Li Ka-Shing Unity Trustcorp Limited
 - Li Ka-Shing Unity Trustee Company Limited
 - Li Ka-Shing Unity Trustee Corporation Limited

Save as disclosed above, at the balance sheet date, the Company has not been notified of any other person who had an interest or short position in shares and underlying shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

On 7 June 2002, a share option scheme (the "Scheme") which complies with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was adopted.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

Report of the Directors

SHARE OPTION SCHEME (continued)

Under the Scheme, the directors may, at their discretion, offer directors (including executive and non-executive), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the directors, will contribute or have contributed to the Company or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of the Company.

The maximum number of shares which may be issued upon exercise of all share options granted under the Scheme is 172,013,000 which represents 14.36% of the issued share capital of the Company as at the date of this annual report. The total number of shares issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their 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 of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) or an aggregate value of HK\$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The period during which a share option may be exercised will be determined by the directors of the Company in their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted. Under the Scheme, there is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of the Company are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK\$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer.

SHARE OPTION SCHEME (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

Details of the share options granted under the Scheme during the year were as follows:

Name or category of grantees	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Granted during the year	At the end of the year			
Directors	34,094,000	–	34,094,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
	–	9,243,000	9,243,000	14.3.2003	14.3.2003 – 13.3.2013	HK\$0.495
	–	70,632,000	70,632,000	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700
	<u>34,094,000</u>	<u>79,875,000</u>	<u>113,969,000</u>			
Tzu San-Te	–	9,632,000	9,632,000	13.10.2003	13.10.2003 – 12.10.2013	HK\$0.700
	–	9,632,000	9,632,000			
Employees	4,824,000	–	4,824,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
	–	2,000	2,000	14.3.2003	14.3.2003 – 13.3.2013	HK\$0.495
	4,824,000	2,000	4,826,000			
Other participants	24,078,000	–	24,078,000	15.11.2002	15.11.2002 – 14.11.2012	HK\$0.580
	–	8,026,000	8,026,000	14.3.2003	14.3.2003 – 13.3.2013	HK\$0.495
	24,078,000	8,026,000	32,104,000			
	<u>62,996,000</u>	<u>97,535,000</u>	<u>160,531,000</u>			

Report of the Directors

SHARE OPTION SCHEME (continued)

Notes:

1. Details of the share options granted to each director of the Company are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
2. The number of share options granted during the year to Mr. Cao Zhong, Mr. Yu Jian, Mr. Luo Zhenyu, Mr. Tse Chun Sing and Mr. Tzu San-Te on 13 October 2003 each exceeded the individual limit of 1% of the shares then in issue and were approved by the shareholders of the Company on 13 October 2003.
3. The share options granted on 13 October 2003 are exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 25% each reaching 100% from 13 October 2006. All other share options granted were vested in full at the date of grant.
4. No share option granted under the Scheme was exercised, cancelled and lapsed during the year. Since there was no share option exercised during the year, no weighted average closing price of shares of the Company has been disclosed.
5.
 - (a) The closing price of the shares of the Company immediately before 15 November 2002 at which date the share options were granted was HK\$0.580.
 - (b) The closing price of the shares of the Company immediately before 14 March 2003 at which date the share options were granted was HK\$0.475.
 - (c) The closing price of the shares of the Company immediately before 13 October 2003 at which date the share options were granted was HK\$0.740.
6. The directors consider that it is not appropriate to state herein the value of the share options granted during the year. Any such valuation will be made on the basis of certain options pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. The directors believe that any calculation of the value of the share options as at the year end date based on a number of speculative assumptions would not be meaningful and would be misleading to the shareholders of the Company.
7. The share options granted under the Scheme are not recognised in the financial statements until they are exercised.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on 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 provisions of Section 79B of the Company Ordinance.

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

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the largest one and five largest customers accounted for 16.6% and 36.8% respectively of the total sales for the year. Business from the largest one and five largest suppliers accounted for 16.3% and 37.8% respectively of the total purchases for the year.

CONNECTED TRANSACTIONS

The transactions as set out in notes 37(i) to 37(iii) to the financial statements under the heading "Related party transactions" were connected transactions which were exempt from any disclosure and shareholders' approval requirement under the Listing Rules. The transactions as set out in notes 37(iv) to 37(vii) to the financial statements under the heading "Related party transactions" did not constitute connected transactions.

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 annual general meetings of the Company in accordance with the provisions of the Company's articles of association.

Report of the Directors

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 13 April 2004 for, amongst other things, reviewing the final results of the Group for the financial year ended 31 December 2003.

AUDITORS

Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, retired at the annual general meeting of the Company held during the year on 25 June 2003 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company in their place. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By Order of the Board

Cao Zhong

Chairman

Hong Kong, 19 April 2004