

The directors of the Company (the "Directors") present their report and the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2003.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out on pages 42 and 43.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated profit and loss account on page 19.

The Directors do not recommend the payment of a dividend.

### SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2003 is set out in note 5 to the accounts.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group for the past five financial years, as extracted from the audited accounts and reclassified as appropriate, is set out as below:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i> (as restated)	2001 <i>HK\$'000</i> (as restated)	2000 <i>HK\$'000</i> (note)	1999 <i>HK\$'000</i> (note)
Turnover					
Continuing operation	<b>90,022</b>	103,380	75,186	100,600	147,079
Discontinued operation	–	9,445	37,946	–	–
	<b>90,022</b>	<b>112,825</b>	<b>113,132</b>	<b>100,600</b>	<b>147,079</b>
(Loss)/profit attributable to shareholders					
Continuing operation	<b>(144)</b>	(25,051)	(18,334)	28,464	(24,887)
Discontinued operation	–	(447)	(2,848)	–	–
	<b>(144)</b>	<b>(25,498)</b>	<b>(21,182)</b>	<b>28,464</b>	<b>(24,887)</b>
Total assets	<b>63,338</b>	54,521	90,426	70,210	93,747
Total liabilities	<b>(49,615)</b>	(52,673)	(66,188)	(42,246)	(245,681)
Net assets/(liabilities)	<b>13,723</b>	1,848	24,238	27,964	(151,934)

Note: The figures for years 1999 and 2000 are before any adjustments based on revised SSAP 12.

**FIXED ASSETS**

Particulars of the movements in fixed assets during the year are set out in note 13 to the accounts.

**SUBSIDIARIES**

Particulars of the Company's principal subsidiaries are set out in note 14 to the accounts.

**BANK LOANS AND OTHER BORROWINGS**

Details of the bank loans and other borrowings of the Group are set out in notes 22 and 23 to the accounts respectively.

**SHARE CAPITAL**

Details of the movements in the share capital of the Company during the year are set out in note 25 to the accounts.

**SHARE OPTION SCHEMES**

The Company's share option scheme was adopted on 4 July 1996 (the "Share Option Scheme") will expire on 3 July 2006. As the Stock Exchange has amended Chapter 17 of the Listing Rules which came into effect on 1 September 2001, no further options may be granted under the Share Option Scheme unless its terms comply with the newly amended provision of Chapter 17 of the Listing Rules. In this connection, the Directors proposed to terminate the Share Option Scheme and adoption of a new share option scheme at the Annual General Meeting of the Company ("AGM").

The primary purpose of the Share Option Scheme was designed to provide incentives to directors and eligible employees of the Company. Under the Share Option Scheme, the Directors may, at their discretion, invite any employee and any executive Director of the Company or its subsidiaries, to take up options at HK\$1 per option to subscribe for shares in the Company.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme will not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued pursuant to the Share Option Scheme. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the date of expiry of the option as may be determined by the Directors which shall not exceed three years commencing on the expiry of six months after the date of the option is accepted and expiring on the last day of such three year period or 3 July 2006 whichever is the earlier.

The exercise price is determined by the Directors, and will not be less than the higher of the closing price of the Company's shares on the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant.

No options under the Share Option Scheme were granted or exercised during the year. All options brought forward were lapsed during the year and no options were outstanding as at 31 December 2003.

## RESERVES

The movements of the reserves of the Company and the Group during the year are set out in note 27 to the accounts and in the consolidated statement of changes in equity on page 22 respectively.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus of approximately of HK\$69,332,000 is currently not available for distribution. The Company's share premium account with a balance of approximately HK\$179,563,000 may be distributed in the form of fully paid bonus shares.

Immediately following the completion of the capital reorganisation (the "Capital Reorganisation"), a credit balance of the contributed surplus account of HK\$32,314,219.62 arising from the capital reduction ("Capital Reduction") will be applied to against the accumulated losses.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

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

## MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales attributable to the Group's major suppliers and customers are as follows:

	<b>2003</b>	2002
	%	%
<b>Purchases</b>		
– the largest supplier	<b>30</b>	20
– five largest suppliers combined	<b>60</b>	55
<b>Sales</b>		
– the largest customer	<b>44</b>	28
– five largest customers combined	<b>73</b>	64

None of the Directors or any of their associates (as defined in the Listing Rules) or any shareholder (who, to the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interests in the Group's five largest suppliers or customers during the year.

**DIRECTORS**

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

**Executive Directors**

Mr CHEUNG Yu Shum, Jenkin	(appointed on 13 April 2004)
Mr NG Tak Chak, Nelson	(appointed on 6 October 2003)
Mr WONG Kui Tak	(appointed on 6 June 2003)
Mr CHU Yuk Kuen	
Mr CHEUNG Lik Chung	(resigned on 13 April 2004)
Mr YAU Yat Biu	(resigned on 6 October 2003)
Ms WU Yun Yu	(resigned on 22 October 2003)
Mr CHAU Oi Ching, Samuel	(appointed on 19 March 2003 and resigned on 18 June 2003)
Mr WONG Wing Shing, Wilson	(resigned on 21 February 2003)
Mr YUNG Kin Hang	(resigned on 11 March 2003)
Mr ZUO Guang	(appointed on 13 June 2003 and resigned on 2 December 2003)

**Independent Non-executive Directors**

Mr TAM Cheuk Ho	(appointed on 17 March 2003)
Mr SHUM Ka Hei	(appointed on 17 March 2003)
Mr YANG Keming	(resigned on 17 March 2003)
Mr CHIU Kin	(resigned on 17 March 2003)

In accordance with the Bye-law 86(2) of the Company's Bye-laws, Messrs WONG Kui Tak and NG Tak Chak, Nelson will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

In accordance with the Bye-law 87(1) of the Company's Bye-laws, Mr TAM Cheuk Ho will retire by rotation at the forthcoming AGM and, being eligible, offer himself for re-election.

**BIOGRAPHICAL DETAILS OF DIRECTORS**

The biographical details of the Directors of the Group as at the date of this report are as follows:–

**Executive Directors**

Mr CHEUNG Yu Shum, Jenkin, aged 43, is an Executive Director and the Chairman of the Company. Mr CHEUNG is a qualified accountant with over 10 years of experience in the financial and corporate management. He is also an executive director of Tem Fat Hing Fung (Holdings) Limited. Mr CHEUNG joined the Group in April 2004.

Mr CHU Yuk Kuen, aged 49, is an Executive Director of the Company. Mr CHU is also an executive director of FT Holding International Limited. He has over 17 years' experience in marketing and manufacturing business. Mr CHU joined the Group in June 1998.

Mr WONG Kui Tak, aged 54, is an Executive Director of the Company. Mr WONG has extensive experience in the areas of corporate management and securities investment. Currently, he runs his own investment business. Mr WONG joined the Group in June 2003.

Mr NG Tak Chak, Nelson, aged 39, is an Executive Director of the Company. He has over 20 years' experience in the field of securities dealings. Mr NG joined the Group in October 2003.

**Independent Non-executive Directors**

Mr TAM Cheuk Ho, aged 41, is an Independent Non-executive Director of the Company. Mr TAM is a fellow member of both the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants and holds a Bachelor degree in Business Administration from The Chinese University of Hong Kong. He is a partner of a professional accounting practise in Hong Kong and a director of a Nasdaq listed company. He has extensive experience in accounting, finance and capital restructuring. Mr TAM joined the Group in March 2003.

Mr SHUM Ka Hei, aged 39, is an Independent Non-executive Director of the Company. Mr SHUM is a holder of Bachelor degree in Social Sciences. He was called to the bar of England and Wales in 1996 and is now a practising barrister in Hong Kong. Mr SHUM joined the Group in March 2003.

### EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Particulars of the Directors' emoluments and of the five highest paid individuals of the Group are set out in note 12 to the accounts respectively.

### DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming AGM 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

No contracts of significance in relation to the Group's business to which the 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 year or at any time during the year.

### MANAGEMENT CONTRACTS

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

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

#### (a) Shares

As at 31 December 2003, the interests, deemed interests, long position, short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) as recorded in register required to be kept under the 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 Transaction by Directors of Listed Companies (the "Model Code") in the Listing Rules were as follows:

Name of Director	Capacity	Nature of Interests	Number of Ordinary Shares	
			Personal Interests	Corporate Interests
CHEUNG Lik Chung (Note 1)	Interest of a controlled corporation	Corporate	–	1,346,448,000
WONG Kui Tak ("Mr WONG") (Note 2)	Beneficial owner	Personal	170,000,000	–
CHEUNG Yu Shum, Jenkin (Note 3)	Interest of a controlled corporation	Corporate	–	5,000,000,000

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES** *(continued)***(a) Shares** *(continued)*

Notes:

- (1) The shares under "Corporate interests" were held by Huge China Developments Limited ("Huge China"), a company incorporated in the British Virgin Islands, which is wholly-owned by Mr CHEUNG Lik Chung. Subsequent to the year end date, the shareholding of Huge China was decreased from 1,346,448,000 shares to 448,816,000 shares upon the completion of the Capital Reorganisation of the Company on 7 April 2004.
- (2) Subsequent to the year end date, the shareholding of Mr WONG was decreased from 170,000,000 shares to 56,666,666 shares upon the completion of the Capital Reorganisation of the Company on 7 April 2004.
- (3) The shares under "Corporate interests" were held by Perfect View Development Limited ("Perfect View"), a company incorporated in the British Virgin Islands, which is wholly-owned by Mr CHEUNG Yu Shum, Jenkin. On 24 December 2003, Perfect View entered into a subscription agreement, with the Company to subscribe 5,000,000,000 shares in the capital of the Company ("Subscription"), and the Subscription was completed on 13 April 2004. Mr. CHEUNG Yu Shum, Jenkin, has been appointed as an Executive Director and Chairman of the Company with effect from 13 April 2004. On 16 April 2004, Perfect View placed 543,700,000 shares of the Company to independent investor.

Save as disclosed above, as at 31 December 2003, none of the Directors, chief executive of the Company or their respective associates had any 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) 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); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Listing Rules relating to Securities Transactions by Directors to be notified to the Company and the Stock Exchange; or (d) to be disclosed in this document pursuant to the requirements of the Takeovers Code.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

### (b) Shares Options

Pursuant to the Share Option Scheme of the Company, certain Directors were granted share options to subscribe for shares of the Company, details of which as at 31 December 2003 are as follows:

Name of Director	Date of Grant	Exercise Price HK\$	Exercise Period	Closing Price Before Date of Grant HK\$	Movement of Option Shares during the year				
					As at 1.1.2003	Granted	Exercised	Lapsed	As at 31.12.2003
Mr CHEUNG Lik Chung (Note a)	3.3.2000	0.18	2.9.2000- 1.9.2003	0.22	67,500,000	-	-	67,500,000	-
Mr YAU Yat Bui (Note b)	3.3.2000	0.18	2.9.2000- 1.9.2003	0.22	20,000,000	-	-	20,000,000	-
Mr YUNG Kin Hang (Note c)	3.3.2000	0.18	2.9.2000- 1.9.2003	0.22	52,500,000	-	-	52,500,000	-

No share options were granted or exercised by the Directors during the year.

Note a: Mr CHEUNG Lik Chung has resigned as Director and Chairman of the Company with effect from 13 April 2004.

Note b: Mr YAU Yat Bui has resigned as Director with effect from 6 October 2003.

Note c: Mr YUNG Kin Hang has resigned as Director of the Company with effect from 11 March 2003. This option was lapsed on 11 April 2003 which was the date of expiration of one month after the date of his resignation.

Save as disclosed above, the Company or any of its associated corporations did not grant to any Directors, chief executive or their respective associates any right to subscribe for shares of the Company or any of its associated corporations, nor had there been any exercise of such right by such persons during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, 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 Directors or their respective associates, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors, chief executives or their respective associates to acquire such rights in any other body corporate.



**SUBSTANTIAL SHAREHOLDERS**

As at 31 December 2003, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than the interest disclosed in "Directors' and chief executive's Interests and Short Positions in Shares and Underlying Shares", the following shareholders had notified the Company of their relevant interests or deemed interests in the issued capital of the Company:

Name	Number of Shares	Approximate percentage of existing issued share capital of the Company
Huge China Developments Limited <i>(Note a)</i>	1,346,448,000	27.78%
Perfect View Development Limited <i>(Note b)</i>	5,000,000,000	75.58%

*Notes:*

- (a) Huge China, a company incorporated in the British Virgin Islands, which is wholly owned by Mr CHEUNG Lik Chung. Subsequent to the year end date, upon the completion of the capital reorganisation of the Company and the completion of subscription of 5,000,000,000 shares of the Company by Perfect View on 13 April 2004. Huge China's shareholding in the Company was decreased from 1,346,448,000 shares (27.78%) to 448,816,000 shares (6.78%). Mr. CHEUNG Lik Chung has resigned as Director and Chairman of the Company with effect from 13 April 2004.
- (b) On 24 December 2003, Perfect View, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr CHEUNG Yu Shum, Jenkin, entered into a subscription agreement with the Company to subscribe for 5,000,000,000 shares in the capital of the Company ("Subscription"), and the Subscription was completed on 13 April 2004. On 16 April 2004, Perfect View placed 543,700,000 shares of the Company to the independent investors ("Placement"). The 5,000,000,000 shares represented 75.58% of the Company's total issued share capital as enlarged by the Subscription and upon completion of the Placement, the shareholding of Perfect View was decreased from 5,000,000,000 shares (75.58%) to 4,456,300,000 shares (67.36%). Mr CHEUNG Yu Shum, Jenkin, has been appointed as an Executive Director and Chairman of the Company with effect from 13 April 2004.

Save as disclosed above, the Directors are not aware of any person, other than the Directors or chief executive of the Company, who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2003.

**CONNECTED TRANSACTIONS**

During the year under review, the Group had no connected transactions.

**POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 29 to the accounts.

**CAPITAL STRUCTURE**

During the year under review, the Company's issued share capital increased due to the two placements of 400,000,000 and 870,854,000 shares respectively during the year. Details are set out in note 25 to the accounts.

Subsequent to the year end date, the Company undergone a Capital Reorganisation involving the (i) share consolidation pursuant to which every three issued shares will be consolidated into one consolidated share; and (ii) capital reduction pursuant to which the nominal value of all the issued consolidated shares reduced from HK\$0.03 each to HK\$0.01 each. Subsequent to the completion of the Capital Reorganisation on 7 April 2004, the Company has issued 5,000,000,000 Shares to Perfect View on 13 April 2004 in pursuant to the subscription agreement entered between Perfect View and the Company on 24 December 2003. As at the date of this report, the Company has total 6,615,710,980 shares of HK\$0.01 each in issue.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at 31 December 2003, none of the Directors of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

**CORPORATE GOVERNANCE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules for the year, except that the independent non-executive Directors are not appointed for specific terms but are subject to retirement and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws. The Company has established an audit committee in accordance with the Code of Best Practice and the committee comprises two independent non-executive Directors, namely Mr TAM Cheuk Ho and Mr SHUM Ka Hei.

**AUDITORS**

There were no other changes in auditors of the Group in any of the preceding three years.

Graham H Y Chan & Co. retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**CHEUNG Yu Shum, Jenkin**  
*Chairman*

Hong Kong, 28 April 2004