

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2004.

#### **Principal activities**

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the design and manufacture of electrical appliances and the trading of merchandise. 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 March 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 64.

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

#### **Financial summary**

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 audited financial statements and reclassified 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 income tax, as detailed in note 2 to the financial statements.

## REPORT OF THE DIRECTORS

### Financial summary (Continued)

#### Results

	<b>2004</b>	2003	2002	2001	2000
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Turnover	<b>239,205</b>	221,130	212,683	205,174	261,503
Net profit/(loss) from ordinary activities attributable to shareholders	<b>(9,252)</b>	4,220	(15,770)	(23,651)	(16,126)

#### Assets, Liabilities and Minority Interests

Total assets	<b>240,370</b>	206,056	206,830	231,520	288,407
Total liabilities	<b>(100,014)</b>	(57,209)	(62,364)	(70,816)	(98,256)
Minority interests	<b>(176)</b>	(84)	(32)	(24)	(7,539)
	<b>140,180</b>	148,763	144,434	160,680	182,612

#### Fixed assets and investment property

Details of movements in the fixed assets and investment property of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

#### Share capital and share options

There were no movements in either the Company's authorised or issued share capital during the year. Details of the Company's share capital and share options are set out in notes 26 and 27 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 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 the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

### Distributable reserves

At 31 March 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$64,564,000.

### Employees and remuneration policy

The Group employs a total of 2,225 (2003: 1,866) employees mostly in Hong Kong and Mainland China. The Group regularly reviews its employees' pay levels and its performance bonus system to ensure that the remuneration policy is competitive within the relevant industries.

### Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 39% of the total sales for the year and sales to the largest customer included therein amounted to 12%. Purchases from the Group's five largest suppliers accounted for less than 30% 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 the Group's five largest customers and five largest suppliers.

### Orders on hand

At the date of this report, the Group had outstanding orders on hand valued at approximately HK\$87 million. This is equivalent to approximately four months' business volume of the Group. The directors regard this level of orders as satisfactory and they are confident that work orders can be maintained at this level.

## REPORT OF THE DIRECTORS

### Directors

The directors of the Company during the year were:

#### **Executive directors:**

Kwok Hon Ching (*Chairman*)

Kwok Hon Lam (*Chief Executive Officer*)

Kwok Hon Kau, Johnny

Chau Kwok Wai

#### **Independent non-executive directors:**

Chow Cheuk Lap

Lee Ho Man, Eric

Wong Lung Tak, Patrick

Mr. Lee Ho Man, Eric, has been re-designated as an independent non-executive director from a non-executive director on 25 March 2004.

In accordance with articles 86 and 87 of the Company's bye-laws, Messrs. Kwok Hon Lam and Chow Cheuk Lap will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 14 of the annual report.

### 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' interests in contracts

No director had a material interest, either directly or indirectly, 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.

### Directors' interests and short positions in shares and underlying shares

At 31 March 2004, 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
		Directly beneficially owned	Beneficiary of a trust		
Kwok Hon Ching	(a), (c)	8,900,000	150,000,000	158,900,000	34.7%
Kwok Hon Kau, Johnny	(b), (c)	8,900,000	150,000,000	158,900,000	34.7%
Kwok Hon Lam	(c)	8,900,000	75,000,000	83,900,000	18.3%
Lee Ho Man, Eric		2,000,000	—	2,000,000	0.4%
Chau Kwok Wai		1,000,000	—	1,000,000	0.2%

Notes (a) to (c) above are detailed in the explanatory notes in the section headed "Substantial shareholders' and other persons' interests in shares and underlying shares" below.

Save as disclosed above, none of the directors had registered an interest or short position 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.

## REPORT OF THE DIRECTORS

### Directors' rights to acquire shares or debentures

Save as disclosed in the share option scheme disclosures in note 27 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.

### Substantial shareholders' and other persons' interests in shares and underlying shares

At 31 March 2004, the following interests of 5% or more of the issued share capital were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Saramade Company Limited	(a)	Directly beneficially owned	75,000,000	16.4%
Prominent Field Inc.	(b)	Directly beneficially owned	75,000,000	16.4%
Armstrong Inc.	(c)	Directly beneficially owned	75,000,000	16.4%
Equity Trustee Limited	(d)	Trustee	225,000,000	49.2%
Kwok Lee Shu Noo	(a), (c)	Through spouse and a beneficial owner	158,900,000	34.7%
Leung Wai Shan, Christina	(b), (c)	Through spouse and a beneficial owner	158,900,000	34.7%
Hui Mei Heung	(c)	Beneficial owner	75,000,000	16.4%
Cheng Mei Chu	(c)	Through spouse and a beneficial owner	83,900,000	18.3%

**Substantial shareholders' and other persons' interests in shares and underlying shares** *(Continued)**Notes:*

- (a) The 75,000,000 shares are held by Saramade Company Limited, which is a trustee of a unit trust owned by a discretionary trust established for the benefit of the family members of Mr. Kwok Hon Ching. Mrs. Kwok Lee Shu Noo is deemed to hold 158,900,000 shares by virtue of her being the spouse of Mr. Kwok Hon Ching.
- (b) The 75,000,000 shares are held by Prominent Field Inc., which is a trustee of a unit trust owned by a discretionary trust established for the benefit of the family members of Mr. Kwok Hon Kau, Johnny. Ms. Leung Wai Shan, Christina is deemed to hold 158,900,000 shares by virtue of her being the spouse of Mr. Kwok Hon Kau, Johnny.
- (c) The 75,000,000 shares are held by Armstrong Inc., which is a trustee of a unit trust owned by a discretionary trust established for the benefit of the family members of Madam Hui Mei Heung, including Messrs. Kwok Hon Ching, Kwok Hon Kau, Johnny and Kwok Hon Lam. Ms. Cheng Mei Chu is deemed to hold 83,900,000 shares by virtue of her being the spouse of Mr. Kwok Hon Lam.
- (d) Equity Trustee Limited is the trustee of the discretionary trusts mentioned in notes (a), (b) and (c) above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section headed "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.

**Chapter 13 of the Listing Rules**

The Group is required to observe a financial covenant underlying trade finance facilities, which requires the Group's consolidated net asset value to be maintained at an amount of not less than HK\$150 million. As at the balance sheet date, the total bank loan outstanding and the stand-by letters of credit given to a third party amounted to approximately HK\$17 million and HK\$5.1 million, respectively, were fully secured by the Group's leasehold land and buildings in Hong Kong, and were guaranteed by the Company and a director of the Company at HK\$22 million. The stand-by letters of credit given to a third party were also secured by the Group's time deposits of HK\$2.6 million. As the Group's audited net asset value at the balance sheet date was less than HK\$150 million, the Group was unable to meet the financial covenant requirement. The directors have discussed with the bank for the non-compliance and no adverse opinion from the bank is noted. The directors are of the opinion that such technical non-compliance would not have a material impact on the financial position of the Group.

## REPORT OF THE DIRECTORS

### 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 Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), throughout the accounting period covered by the annual report, except that the independent 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 bye-laws of the Company.

### 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 three 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

**Kwok Hon Ching**

*Chairman*

Hong Kong

28 July 2004