

Report of the Directors

The directors of the Company (the “Directors”) have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2004.

Principal Activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 33 to the financial statements.

Segmental Information

Details of segmental information are set out in note 4 to the financial statements.

Results and Appropriation

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 23.

An interim dividend of HK3 cents (2003: HK2 cents) per share, totaling HK\$8,562,000 was paid on 18 October 2004. The Directors now recommend the payment of a final dividend of HK10 cents (2003: HK8 cents) per share in respect of the year ended 31 December 2004. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 7 June 2005 to the shareholders whose names appear on the register of members at the close of the business on 17 May 2005.

The register of members of the Company will be closed from 11 May 2005 to 17 May 2005 (both dates inclusive). In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 10 May 2005.

No arrangement has been made under which a shareholder has waived or agreed to waive any dividends.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 55 to 56.

Report of the Directors

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total | |
|-------------------------------------|---------------------------------|-----------|
| | Sales | Purchases |
| The largest customer | 14% | – |
| Five largest customers in aggregate | 42% | – |
| The largest supplier | – | 11% |
| Five largest suppliers in aggregate | – | 37% |

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Property, Plant and Equipment

During the year, the Group spent HK\$30,260,000 (2003: HK\$27,342,000) on additions to property, plant and equipment and the construction of dormitory buildings for senior staff to further upgrade its manufacturing capabilities, and to build the retail platform and opening of stores. Details of movements in fixed assets are set out in note 13 to the financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 23 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

As at 31 December 2004, the Company's reserves available for cash distribution amounted to HK\$201,218,000 (2003: HK\$127,885,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK\$93,888,000 (2003: HK\$90,126,000) as at 31 December 2004 may be distributed in the form of fully paid bonus shares.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$1,018,000 (2003: HK\$1,560,000).

Report of the Directors

Directors

The Directors during the financial year were:

Executive Directors

Mr. Ngan Hei Keung (*Chairman*)

Madam Ngan Po Ling, Pauline (*Deputy Chairman and Managing Director*)

Mr. David, Stephen Briskie

Mr. Ho Hung Chu, Peter (*Chief Executive Officer*) (appointed on 5 January 2004)

Independent Non-executive Directors

Mr. Leung Shu Yin, William

Mr. Tse Kam Fow (appointed on 17 August 2004)

Mr. Gordon Ng (resigned on 23 November 2004)

The following Independent Non-executive Director was appointed after the end of the financial year:

Mr. Lo Hang Fong (appointed on 21 February 2005)

As at 31 December 2004, the Company considered all the Independent Non-executive Directors to be independent. The Company has received from each of the Independent Non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a sufficient number of independent non-executive directors and an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise, except that Mr. Lo Hang Fong was only appointed on 21 February 2005 to replace Mr. Gordon Ng who resigned as an independent non-executive director of the Company on 23 November 2004.

Independent Non-executive Directors except for Mr. Lo Hang Fong are not appointed for a specific term. Mr. Lo has been appointed for an initial term of one year, renewable automatically for successive terms of one year.

All the Directors, excluding Chairman and Deputy Chairman, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-Laws of the Company.

In accordance with the Company's Bye-Law No. 87, Mr. Leung Shu Yin, William will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with the Company's Bye-Law No. 86(2), Mr. Tse Kam Fow and Mr. Lo Hang Fong shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Report of the Directors

Directors' Service Contracts

Each of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline has entered into a service contract with the Company which may be terminated by not less than twelve months' notice in writing served by either party.

Mr. Ho Hung Chu, Peter has entered into a service contract with the Company, which may be terminated by not less than six months' notice in writing served by either party.

Mr. David, Stephen Briskie has entered into a service contract with the Company, which may be terminated by not less than three months' notice in writing served by either party. There is also a service agreement entered into between two subsidiaries of the Company and Mr. Briskie for an initial term of five years commencing on 26 April 2002, which is renewable for an additional term of two years. Pursuant to this service agreement with the two subsidiaries, Mr. Briskie is entitled to a base salary of HK\$1,716,000 per annum and a gratitude payment equal to 15% of the annual base salary, in aggregate, payable after the expiration of the initial term. As the agreement was entered into before 31 January 2004, it is exempted from the shareholders' approval requirement under Rule 13.68 of the Listing Rules.

Mr. Lo Hang Fong has entered into a service contract with the Company for an initial term of one year, renewable automatically for successive terms of one year, which may be terminated by not less than three months' notice in writing served by either party provided that the notice shall not expire before the expiry of the initial term.

Save as disclosed above, none of the Directors has an unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

Directors' Interests in Contracts

Save as disclosed in note 31 to the financial statements and in the section "Connected Transactions" below, no contract of significance to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Connected Transactions

During the year, the Group paid rental totaling HK\$960,000 under operating lease in respect of office premises to a company beneficially owned by Mr. Ngan Hei Keung.

The above connected transaction was conducted on normal commercial terms and on an arm's length basis and where applicable in accordance with the terms of the agreement governing such transaction, and is fair and reasonable so far as the shareholders of the Company are concerned.

The above transaction has been confirmed by the Independent Non-executive Directors of the Company.

Report of the Directors

Directors' Interests in Shares and Underlying Shares

As at 31 December 2004, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under 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, were as follows:

Long positions in the shares and underlying shares of the Company

| | Number of shares | | | Total | Percentage of interest |
|-----------------------------|-------------------|-----------------------|--------------------|-------------|------------------------|
| | Personal interest | Other direct interest | Underlying shares | | |
| Mr. Ngan Hei Keung | – | 190,000,000 (note 1) | – | 190,000,000 | 66.46% |
| Madam Ngan Po Ling, Pauline | – | 190,000,000 (note 1) | – | 190,000,000 | 66.46% |
| Mr. David, Stephen Briskie | 4,370,690 | – | 2,680,000 (note 2) | 7,050,690 | 2.47% |

Notes:

- 190,000,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members.
- Mr. David, Stephen Briskie has been granted share options to subscribe for 2,680,000 shares of the Company under the Company's share option scheme. Details of the options granted are set out in the section headed "Share Option Schemes" below.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests in the shares or underlying shares of the Company or any of its associated corporations as defined in the SFO.

Report of the Directors

Share Option Schemes

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and Executive Directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees and non-executive directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 27,760,053, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme.

The New Scheme will remain in force for a period of 10 years from the date of its adoption. The purpose of the New Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group.

Unless approved by shareholders in general meeting, the total number of shares issued and which may fall to be issued upon exercise of the options of the New Scheme and the options granted under any other schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company at the relevant time.

An option may be exercised in accordance with the terms of the New Scheme at any time during the period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses in accordance with the terms of the New Scheme and 10 years from the date of offer of that option. A consideration of HK\$1 will be payable upon acceptance of the offer.

As at the date of annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 620,053 shares, which represented 0.2% of the issued share capital of the Company as at 31 March 2005.

Report of the Directors

Share Option Schemes (continued)

At 31 December 2004, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares in the Company (market value per share is HK\$2.90 at the balance sheet date) granted at nominal consideration under the share option schemes operated by the Company, each option gives the holder the right to subscribe for one share:

| | Date of grant | Period during which options exercisable | Exercise price (HK\$) | Outstanding at 1.1.2004 | Granted during the year | Lapsed during the year | Exercised during the year | Outstanding at 31.12.2004 | Market value per share at date of grant (HK\$) |
|--------------------------------|---------------|---|-----------------------|-------------------------|-------------------------|------------------------|---------------------------|---------------------------|--|
| Old Scheme | | | | | | | | | |
| Employees | 11.06.2001 | 11.06.2002 – 10.06.2009 | 1.228 | 3,795,000 | – | (1,788,000) | (1,517,000) (Note) | 490,000 | 1.54 |
| New Scheme | | | | | | | | | |
| Director | | | | | | | | | |
| Mr. David, Stephen Briskie | 03.07.2002 | 03.07.2003 – 02.07.2010 | 2.700 | 2,680,000 | – | – | – | 2,680,000 | 2.70 |
| Employees | | | | | | | | | |
| | 03.07.2002 | 03.07.2003 – 02.07.2010 | 2.700 | 8,970,000 | – | (230,000) | – | 8,740,000 | 2.70 |
| | 12.02.2003 | 12.02.2004 – 11.02.2011 | 2.205 | 1,120,000 | – | – | – | 1,120,000 | 2.20 |
| | 03.06.2003 | 03.06.2004 – 02.06.2013 | 2.300 | 12,200,000 | – | (150,000) | (932,000) (Note) | 11,118,000 | 2.30 |
| | | | | 22,290,000 | – | (380,000) | (932,000) | 20,978,000 | |
| Customers and suppliers | | | | | | | | | |
| | 03.07.2002 | 03.07.2003 – 02.07.2010 | 2.700 | 1,950,000 | – | – | – | 1,950,000 | 2.70 |
| | 03.06.2003 | 03.06.2004 – 02.06.2013 | 2.300 | 600,000 | – | – | – | 600,000 | 2.30 |
| | | | | 2,550,000 | – | – | – | 2,550,000 | |

Note: Closing prices of shares immediately before the dates on which options were exercised ranged from HK\$2.775 to HK\$3.075.

Report of the Directors

Share Option Schemes (continued)

The share options are not recognised in the financial statements until they are exercised.

Hong Kong Financial Reporting Standard (“HKFRS”) 2 “Share-based Payments” issued by the Hong Kong Institute of Certified Public Accountants will take effect for accounting periods beginning on or after 1 January 2005. Management is now evaluating the most appropriate assumptions and the valuation method that will be used in valuing the fair value of the Company’s options. Thus, the Directors consider that it would be inappropriate at this time to state the estimated value of the options.

Apart from the foregoing, at no time during the year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Company’s Directors or chief executives or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

Substantial Shareholders

So far as is known to the Directors or chief executives of the Company, as at 31 December 2004, the following declarations of interests by shareholders (other than Directors) holding 5% or more of the issued share capital of the Company was recorded in the register required to be kept by the Company under Section 336 of the SFO:

| | Capacity | Number of shares | Percentage of shareholding |
|---|--------------------|------------------|----------------------------|
| Successful Years International Co., Ltd. (note) | Beneficial owner | 190,000,000 | 66.46% |
| Amex International Trust (Cayman) Ltd. (note) | Trustee | 190,000,000 | 66.46% |
| Templeton Asset Management Limited | Investment manager | 18,000,000 | 6.30% |

Note: Successful Years International Co., Ltd. is owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members. Amex International Trust (Cayman) Ltd. is the trustee of the two trusts.

The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in Successful Years International Co., Ltd. are also disclosed in the section headed “Directors’ Interests in Shares and Underlying Shares” above.

Save as disclosed above, as at 31 December 2004, the Company had not been notified by any persons (other than Directors) who had interests in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Retirement Schemes

Particulars of retirement schemes operated by the Group are set out in note 12 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.

Report of the Directors

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Sufficiency of Public Float

The Directors confirm that, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has sufficient public float as at 15 April 2005, being the latest practicable date prior to the issue of the annual report.

Code of Best Practice

In the opinion of the Directors, the Company has, throughout the year, complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules applicable for the year except that the Independent Non-executive Directors were not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-Law No. 87. The Code of Best Practice contained in Appendix 14 of the Listing Rules has been replaced by the Code on Corporate Governance Practices with effect from 1 January 2005 and the new Code will apply for subsequent reporting periods.

Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year.

Audit Committee

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise three independent non-executive directors. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the annual results for 2004.

Auditors

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, as auditors of the Company.

There has been no change of auditors of the Company in any of its preceding three years.

By order of the Board

Ngan Hei Keung

Chairman

Hong Kong, 12 April 2005