

# REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st March 2005.

## Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are shown in note 33 to the accounts.

## Results and Appropriations

The results of the Group for the year ended 31st March 2005 are set out in the consolidated profit and loss account on page 43 of the accounts.

The Directors declared an interim dividend of 0.58 US cents (4.5 HK cents) per share, totalling US\$21,195,000, which was paid on 3rd January 2005.

The Directors recommend the payment of a final dividend of 1.41 US cents (11 HK cents) per share, totalling US\$51,810,000, payable on 29th July 2005.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the accounts.

## Distributable Reserves

As at 31st March 2005, the distributable reserves of the Company available for distribution as dividends amounted to US\$464,480,000, comprising retained earnings of US\$369,207,000 and contributed surplus of US\$95,273,000 arising from the reorganisation of Johnson Electric Group in 1988 less a bonus issue in 1991.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

## Donations

During the year, the Group made charitable and other donations of US\$214,000 (2004: US\$372,000).

## Fixed Assets

Details of the movements in properties, plant and equipment are shown in note 14 to the accounts.

## Share Capital

Details of the share capital are shown in note 27 to the accounts.

## Directors

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

Wang Koo Yik Chun

Patrick Wang Shui Chung *JP*

Winnie Wang Wing Yee

Peter Stuart Allenby Edwards

Patrick Blackwell Paul

Arkadi Kuhlmann

Richard Wang Li-Chung

Oscar De Paula Bernardes Neto

Peter Wang Kin Chung

Michael John Enright

Laura May-Lung Cha (appointed on 20th September 2004)

Peter John Wrangham (retired and resigned on 8th June 2004)

In accordance with Bye-Law 109(A) of the Company's Bye-Laws, Ms. Wang Koo Yik Chun, Mr. Arkadi Kuhlmann and Mr. Oscar De Paula Bernardes Neto retire from office by rotation and, being eligible, offer themselves for re-election.

In accordance with Bye-Law 100 of the Company's Bye-Laws, Mrs. Laura May-Lung Cha retires from office and being eligible, offers herself for re-election.

The Company is controlled through the Board of Directors which comprises eleven Directors. At 31st March 2005, three of the Directors are executive and eight of the Directors are non-executive, of whom six are independent. Their details are set out in the Biographical Details of Directors and Senior Management section on pages 36 to 40.

## Directors' Service Contracts

None of the Directors of the Company had a service contract with the Company or any of its subsidiaries during the year.

## Disclosure of Interests

### A DIRECTORS

As at 31st March 2005, the interests of each director and chief executive of the Company in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO were as follows:

Name	Shares of the Company of HK\$0.0125 each	
	Personal Interests	Other Interests
Wang Koo Yik Chun	–	2,183,600,640 ( <i>Notes a &amp; b</i> )
Peter Stuart Allenby Edwards	–	100,000 ( <i>Note c</i> )
Patrick Blackwell Paul	50,000	–

NOTES

- a. *These shares are held, directly or indirectly, by the trustees of various trusts associated with the Wang family.*
- b. *Duplications of shareholdings occur among and between the parties shown below under the Section B Substantial Shareholders.*
- c. *These shares are held under a trust of which Peter Stuart Allenby Edwards is one of the beneficiaries.*

Save as disclosed herein, as at 31st March 2005, the register maintained by the Company pursuant to section 352 of the SFO recorded no other interests or short positions of the Directors in any shares of the Company (within the meaning of Part XV of the SFO).

**B SUBSTANTIAL SHAREHOLDERS**

As at 31st March 2005, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital:

Name of shareholder	Capacity	Number of shares held	Approximate % of shareholding
Ms. Wang Koo Yik Chun	Beneficiary of family trusts	2,135,600,640 <i>(Notes a &amp; b)</i>	58.13
HSBC International Trustee Limited	Trustee	947,282,000 <i>(Notes a &amp; c)</i>	25.78
Ansbacher (Bahamas) Limited	Trustee	887,040,000 <i>(Note a)</i>	24.15
Bermuda Trust (Guernsey) Limited	Trustee	358,972,480 <i>(Note a)</i>	9.77
Ceress International Investment Corporation	Trustee	223,014,080 <i>(Note d)</i>	6.07
Merriland Overseas Limited	Trustee	211,943,040 <i>(Note e)</i>	5.77

## NOTES

- a. *The shares in which Ansbacher (Bahamas) Limited and Bermuda Trust (Guernsey) Limited were interested and 937,588,160 of the shares in which HSBC International Trustee Limited was interested were held, directly or indirectly, by them as the trustees of various trusts associated with the Wang family and are included in the shares in which Ms. Wang Koo Yik Chun was interested as referred to above under Directors' interests in Section A of Disclosure of Interests.*
- b. *The shares in which Ms. Wang Koo Yik Chun was interested as referred to above formed part of the shares referred to in Note a.*
- c. *941,500 of the shares in which HSBC International Trustee Limited was interested were held through HSBC Trustee (Hong Kong) Limited.*
- d. *The interests of Ceress International Investment Corporation in the Company were duplicated by the interests in the Company held by Bermuda Trust (Guernsey) Limited.*
- e. *The interests of Merriland Overseas Limited in the Company were duplicated by the interests in the Company held by HSBC International Trustee Limited.*

Save as disclosed herein, as at 31st March 2005, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in the shares of the Company.

## Share Scheme

### A SHARE OPTION SCHEME

The Company has on 29th July 2002 adopted a new share option scheme (herein referred to as “the Scheme”).

The major terms of the Scheme, in conjunction with the requirements of chapter 17 of the Rules Governing the Listing of Securities (“the Listing Rules”) on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”), are as follows:

(a) Purpose

The purpose of the Scheme is to provide incentive or rewards to Participants.

(b) Participants

The participants of the Scheme are

- (i) any director (including a non-executive director and an independent non-executive director), employee or consultant of the Group or a company in which the Group holds an equity interest or a subsidiary of such company (“Affiliate”); or

(ii) any discretionary trust whose discretionary objects include any director, employee or consultant of the Group or an Affiliate; or

(iii) a company beneficially owned by any director, employee or consultant of the Group or an Affiliate.

(c) Maximum number of shares

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company shall not exceed 2 per cent. of the share capital of the Company in issue from time to time.

The maximum number of shares (issued and to be issued) in respect of which options may be granted under the Scheme to any one grantee in any 12-month period shall not exceed 0.1 per cent. of the share capital of the Company in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained with such grantee and his associates abstaining from voting in accordance with the Listing Rules and a circular is issued.

(d) Time of acceptance and exercise of an Option

There is no specific requirement under the Scheme that an Option must be held for any minimum period before it can be exercised, but the terms of the Scheme provide that the Board has the discretion to impose a minimum period at the time of grant of any particular option. The date of grant of any particular Option is the date when the duplicate offer document constituting acceptance of the Option duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration is received by the Company, such date must be on or before the 28th day after the Option is offered to the relevant grantee. The period during which an Option may be exercised will be determined by the Board at its absolute discretion, save that no Option may be exercised more than 10 years after it has been granted.

(e) Subscription price for shares

The subscription price for shares shall be a price determined by the Directors, but shall not be less than the higher of

(i) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; and

(ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant.

## (f) Period of the Scheme

The Scheme will remain in force for a period of 10 years from the date of adoption of such Scheme.

Details of the new share options granted under the Scheme as at 31st March 2005 are as follows:–

Type of Grantees	Options held at 01/04/2004	Options granted during the year	Options cancelled during the year	Options held at 31/03/2005	Subscription price per share (HK\$)	Date of grant	Exercisable from	Exercisable until	Note
Employees	100,000	–	–	100,000	7.90	17/09/2002	01/08/2004	16/09/2012	(i)
	100,000	–	–	100,000	7.90	17/09/2002	01/08/2005	16/09/2012	(i)
	750,000	–	(100,000)	650,000	8.02	17/09/2002	01/08/2004	16/09/2012	(i)
	750,000	–	(100,000)	650,000	8.02	17/09/2002	01/08/2005	16/09/2012	(i)
	150,000	–	–	150,000	9.40	10/07/2003	01/07/2005	09/07/2013	(ii)
	150,000	–	–	150,000	9.40	10/07/2003	01/07/2006	09/07/2013	(ii)
	837,500	–	–	837,500	9.65	31/07/2003	01/07/2005	30/07/2013	(iii)
	837,500	–	–	837,500	9.65	31/07/2003	01/07/2006	30/07/2013	(iii)
	100,000	–	–	100,000	10.70	01/08/2003	01/08/2005	31/07/2013	(iv)
	100,000	–	–	100,000	10.70	01/08/2003	01/08/2006	31/07/2013	(iv)
	100,000	–	–	100,000	11.95	06/10/2003	01/10/2005	30/09/2013	(v)
	100,000	–	–	100,000	11.95	06/10/2003	01/10/2006	30/09/2013	(v)
	–	50,000	–	50,000	8.77	07/05/2004	01/05/2006	30/04/2014	(vi)
	–	50,000	–	50,000	8.77	07/05/2004	01/05/2007	30/04/2014	(vi)
	–	100,000	–	100,000	7.40	28/12/2004	01/01/2007	31/12/2014	(vii)
	–	100,000	–	100,000	7.40	28/12/2004	01/01/2008	31/12/2014	(vii)
	4,075,000	300,000	(200,000)	4,175,000					

**NOTE**

The closing market price per share immediately before the date on which the share options were granted were (i) HK\$8.10, (ii) HK\$10.85, (iii) HK\$10.80, (iv) HK\$10.60, (v) HK\$11.65, (vi) HK\$7.20 and (vii) HK\$7.60.

Due to the current volatility of the share markets, the Directors consider it inappropriate to value the options which were granted under the Scheme.

## B LONG-TERM INCENTIVE SHARE SCHEME

Under the terms of the Long-Term Incentive Share Scheme (“Incentive Share Scheme”) which was approved by the shareholders on 26th July 1999, the Directors may at their discretion invite full time employees of the Company and its subsidiaries, including Directors, to participate in the Incentive Share Scheme, and grant shares to such eligible employees.

Details of the shares vested in the eligible employees under the Incentive Share Scheme as at 31st March 2005 are as follows:

Year of grant of shares	Number of shares purchased	Purchase Price (HK\$)	Shares awarded		
			<u>2003</u>	<u>2004</u>	<u>2005</u>
2003	154,917	9.50	51,639	51,639	51,639

Apart from the Scheme and the Incentive Share Scheme mentioned above, there were no other arrangements to which the Company or its subsidiaries was a party to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Johnson Electric Group Ten-Year Summary

A summary of the results and of the assets and liabilities of the Group for last ten financial years are set out on pages 84 to 85.

### Pre-emptive Rights

No pre-emptive rights exist under Bermudan law in relation to issues of new shares by the Company.

### Major Suppliers and Customers

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

### Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares 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.

### **Public Float**

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

### **Senior Management**

The biographical details of the senior management as at the date of this report are set out in the Directors and Senior Management section on pages 36 to 40.

### **Corporate Governance**

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on pages 22 to 27.

### **Directors' Responsibilities for the Accounts**

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31st March 2005 the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

### **Auditors**

The accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

*On behalf of the Board*

**Patrick Wang Shui Chung**

*Chairman & Chief Executive*

Hong Kong, 13th June 2005