

# DIRECTORS' REPORT

The Directors are pleased to present their report and the audited consolidated financial statements of Peace Mark (Holdings) Limited (the "Company") and its subsidiaries (together with the Company hereinafter referred to as the "Group") for the year ended 31 March, 2002.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements.

## SEGMENT INFORMATION

An analysis of the Group's segment information is set out in note 4 to the financial statements.

## RESULTS

Details of the results of the Group for the year ended 31 March, 2002 are set out in the consolidated income statement on page 32 and the accompanying notes to the financial statements.

## DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

With a view to reserving adequate funds for the Group's business growth and expansion, the Directors have resolved not to recommend the payment of a dividend for the year ended 31 March, 2002.

The Register of Members of the Company will be closed from 28 August, 2002 to 30 August, 2002 (both days inclusive) for the purpose of establishing entitlement of shareholders to vote at the forthcoming Annual General Meeting to be held on 30 August, 2002.

## RESERVES

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

## DISTRIBUTABLE RESERVES

As at 31 March, 2002, the reserves of the Company available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$366,209,000. In addition, the share premium of the Company, in the amount of approximately HK\$43,255,000, may be distributed in the form of fully paid bonus shares.



# DIRECTORS' REPORT

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years and the assets and liabilities of the Group as at the end of the last five financial years is set out on pages 85 of the Annual Report.

## FIXED ASSETS

During the year, the Group spent approximately HK\$83.8 million on the acquisition of fixed assets.

Details of the movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

## INTANGIBLE ASSETS

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

## SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in note 16 to the financial statements.

## SHARE CAPITAL

During the year, the Company carried out a capital reorganisation whereby the paid-up capital and nominal value of all the issued shares were reduced from HK\$0.10 to HK\$0.005 each by cancellation of HK\$0.095 paid up capital on each issued share and every 20 issued shares of HK\$0.005 were consolidated into one share of HK\$0.10 each.

Details of these and other movements in the share capital of the Company during the year are set out in notes 24 to the financial statements.

## BORROWINGS

Particulars of the Group's and Company's borrowings and obligations under finance leases are set out in notes 21 and 22 to the financial statements respectively.

## RETIREMENT SCHEMES BENEFITS

Details of retirement schemes benefits are set out in note 27 to the financial statements.

## SUBSEQUENT EVENTS

Details of the subsequent events of the Group which took place subsequent to 31 March, 2002 and up to the date of the report are set out in note 33 to the financial statements.



# DIRECTORS' REPORT

## DIRECTORS

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

### Executive Directors

Mr. Chau Cham Wong, Patrick (*Chairman*)

Mr. Leung Yung (*Managing Director*)

Mr. Tsang Kwong Chiu, Kevin

Mr. Man Kwok Keung

Mr. Cheng Kwan Ling

Mr. Lee Ka Yue, Peter (resigned on 28 August, 2001)

Mr. Law Shik Chuen (resigned on 28 August, 2001)

### Independent Non-Executive Directors

Sir Oswald Cheung, C.B.E., LL.D., D.Soc.Sc., J.P.

The Honorable Lau Wong Fat, G.B.S., J.P.

Ms. Susan So (appointed on 14 November, 2001)

Mr. Wong Wing Hong, Benny (resigned on 11 September, 2001)

In accordance with article 86(2) of the Company's Bye-laws, Ms. Susan So appointed by the Board of Directors shall hold office until the forthcoming annual general meeting and, being eligible, offer herself for re-election. Pursuant to articles 87(1) and 87(2) of the Company's Bye-laws, Sir Oswald Cheung shall retire and offer himself for re-election at the forthcoming annual general meeting.

The terms of office of independent non-executive Directors are subject to retirement by rotation in accordance with the Bye-laws.

### DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group which is not terminable by the Group within one year without payment of compensation, other than normal statutory compensations.



# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 March, 2002, the interests of the Directors and their associates in the securities of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Directors	Number of Ordinary Shares		Number of Share Options
	Personal interest	Corporate interest	
Mr. Chau Cham Wong, Patrick	18,730,416	–	30,000,000 **
Mr. Leung Yung	–	18,391,500 *	30,000,000 **
Mr. Tsang Kwong Chiu, Kevin	–	–	30,000,000 **
Mr. Lee Ka Yue, Peter (resigned on 28 August, 2001)	–	–	10,000,000 ***
Mr. Law Shik Chuen (resigned on 28 August, 2001)	–	–	10,000,000 ***

\* Mr. Leung is deemed to be interested in 18,391,500 shares held by United Success Enterprises Limited ("United Success") by virtue of his interest in United Success.

\*\* All these share options were cancelled on 24 January, 2002.

\*\*\* All these share options were lapsed on 27 November, 2001.

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company being held by the Directors in trust for the Company, as at 31 March, 2002, none of the Directors, chief executives or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the Directors and chief executives, or their spouse or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.



# DIRECTORS' REPORT

## SHARE OPTION SCHEME

On 15 January, 1993, the Company adopted a share option scheme (the "Scheme") under which the Directors of the Company may, at their discretion, grant options to full time employees including Directors of the Company or any of its subsidiaries, to subscribe for shares in the Company at a price being not less than 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the options or the nominal value of the shares whichever is the higher. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Pursuant to the Scheme, the Company granted options to certain directors and employees of the Group, details of which are as follows:

Name or category of participant	Date of grant	Exercisable period	Exercise price (HK\$)	Outstanding as at 1 April, 2001	Number of options cancelled	Number of options lapsed	Outstanding as at 31 March, 2002
<b>Directors</b>							
Chau Cham Wong, Patrick	8 October, 1999	8 April, 2000 to 7 April, 2003	0.10	30,000,000	30,000,000	-	-
Leung Yung	8 October, 1999	8 April, 2000 to 7 April, 2003	0.10	30,000,000	30,000,000	-	-
Tsang Kwong Chiu, Kevin	8 October, 1999	8 April, 2000 to 7 April, 2003	0.10	30,000,000	30,000,000	-	-
Lee Ka Yue, Peter	8 October, 1999	8 April, 2000 to 7 April, 2003	0.10	10,000,000	-	10,000,000	-
Law Shik Chuen	8 October, 1999	8 April, 2000 to 7 April, 2003	0.10	10,000,000	-	10,000,000	-
Employees in aggregate	8 October, 1999	8 April, 2000 to 7 April, 2003	0.10	39,300,000	39,300,000	-	-

During the year, no share options were exercised out of the share options granted.

Pursuant to the resolutions passed at the special general meeting ("SGM") of the Company on 24 January, 2002, the Scheme was terminated and a new share option scheme (the "New Share Option Scheme") was adopted.

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Under the New Share Option Scheme, the Directors of the Company may, at their discretion, grant options to Directors and employees of the Group and to other eligible persons (as defined in the New Share Option Scheme) to subscribe for shares in the Company at a price determined by the Directors and shall be the higher of (a) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the offer date; and (b) the average closing price of the share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date. Details of the terms are set out in a circular dated 2 January, 2002. The total number of shares in respect of which new share options may be granted shall not exceed 10% of total issued share capital of the Company as at the date of approval of the New Share Option Scheme, unless, the Company obtains new approval from the shareholders to renew the 10% limit, and on the basis that the maximum number of shares in respect of which new share options may be granted under the New Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time.

As at the date of this report, no options have been granted under the New Share Option Scheme.

Further details of the Scheme and the New Share Option Scheme and movements in other options of the Company are set out in note 26 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had interests of 10% or more in the issued share capital of the Company:

Name	Number of Shares	%
Mr. Chau Cham Wong, Patrick	18,730,416*	10.18
United Success Enterprises Limited**	18,391,500*	10.00

\* Identical to those disclosed above as Directors' Interests in Securities.

\*\* United Success Enterprises Limited is wholly-owned by Mr. Leung Yung.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 March, 2002.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

On 8 October, 1999, share options under the Scheme to subscribe for 149,300,000 shares in the Company were granted to certain directors and eligible employees, which are exercisable from 8 April, 2000 to 7 April, 2003 at an exercisable price of HK\$0.10 per share (subject to adjustment under the terms of the Scheme). However, during the year, all the share options had either lapsed or cancelled.



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During the year, no options have been granted under the New Share Option Scheme.

Other than disclosed above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements that 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 and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company nor 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.

## CONNECTED TRANSACTIONS

Prior to 28 August, 2001, EganaGoldpfeil was a substantial shareholder of the Company under the Listing Rules. As such, the trading transactions between the Group and EganaGoldpfeil and its subsidiaries had constituted connected transactions under the Listing Rules.

In February 2000, a conditional waiver of strict compliance with the Listing Rules in respect of the trading transactions was granted by the Stock Exchange for the three financial years of the Company commencing from 1 April, 2000.

The details of the transactions made during the year were set out in note 12 to the financial statements according to the Listing Rules. The independent non-executive Directors and the auditors have reviewed the connected transactions as set out in the annual report, and confirmed that those transactions were:

- (1)
  - (a) entered into in the ordinary and usual course of business of the Group;
  - (b) entered into on normal commercial terms; and
  - (c) fair and reasonable so far as the shareholders of the Company are concerned.
- (2) the annual aggregate value of sales to EganaGoldpfeil did not exceed 50% of the total sales of the Group for the financial year.

In the opinion of the Directors, the connected transactions as set out in note 12 were conducted on normal commercial terms and in the ordinary and usual course of business of the Group.



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On 28 August, 2001, Glorious Concept Limited ("Glorious Concept"), a wholly-owned subsidiary of EganaGoldpfeil agreed to sell, and United Success agreed to purchase 367,830,000 ordinary shares of par value of HK\$0.10 for a cash consideration of HK\$49,800,000 (the "Transaction"). Immediately following the Transaction, EganaGoldpfeil's interest in the Company decreased from approximately 16.50% to approximately 6.50%.

On 6 June, 2002, A-ONE INVESTMENTS LIMITED ("A-ONE"), an investment holding company owned as to 50.45% by Mr. Chau Cham Wong, Patrick and 49.55% by Mr. Leung Yung, entered into an underwriting agreement (the "Underwriting Agreement") with the Company regarding the proposed rights issue of the Company as stated in the announcement dated 6 June, 2002. Since A-ONE is an associate of both Mr. Chau Cham Wong, Patrick and Mr. Leung Yung who are the substantial shareholders and executive directors of the Company, the Underwriting Agreement is a connected transaction for the Company which is exempted from shareholders' approval requirements pursuant to Rule 14.24(b)(c) of the Listing Rules.

Further details of the proposed rights issue will be set out in a circular and will be despatched in due course.

Save as discussed above, there were no other transactions which needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March, 2002, the five largest ultimate customers to whom the goods were exported by the Group together accounted for not more than 50% of the Group's turnover for which the largest ultimate customer accounting for not more than 10%, and the five largest suppliers of the Group accounted for not more than 94.0% of the Group's purchases for which the largest supplier accounting for approximately 43.9%.

Save as disclosed above, none of the Directors, their associates nor any shareholder who, to the knowledge of the Directors own more than 5% of the Company's share capital, had an interest in any of the five largest suppliers or customers.

## PROPERTIES

Details of the properties of the Group as at 31 March, 2002 are set out on pages 83 to 84 of this report.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.





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## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

## AUDIT COMMITTEE

Under the Listing Rules and with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants, the Company established an audit committee (the "Audit Committee").

The existing members of the Audit Committee include the three Independent Non-Executive Directors of the Company. The principal missions of the Audit Committee are review of the Group's internal control system, regular meetings with the Executive Directors and considering the nature and scope of the audit.

## CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for the year ended 31 March, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that Independent Non-Executive Directors are not appointed for a specific term as they are subject to retirement by rotation at the Annual General Meeting of the Company in accordance with the Company's Bye-laws.

## AUDITORS

The financial statements for the year ended 31 March, 2002 were audited by Messrs. Chu and Chu, Certified Public Accountants. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to re-appoint them as auditors.

On behalf of the Board



**Chau Cham Wong, Patrick**

*Chairman*

Hong Kong

10 July, 2002

