

# Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for year ended 31 March 2002.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 40 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers of the Group together accounted for approximately 33% of the Group's total purchases for the year, with the largest supplier accounted for approximately 7% of the Group's total purchases. During the year, the aggregate sales attributable to the Group's five largest customers represented less than 30% of the Group's total sales.

For the year ended 31 March 2002, sales to the four distributors in Shenzhen, the People's Republic of China (the "PRC") amounted to approximately 54% of the turnover of the Group.

At no time during the year, did a director or a shareholder of the Company which to the knowledge of the directors owns more than 5% of the Company's share capital has an interest in any of the Group's five largest suppliers.

## RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2002 are set out in the consolidated income statement on page 34 of the annual report.

An interim dividend of HK\$0.05 per share amounting to HK\$103,812,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK\$0.03 per share to the shareholders on the register of members on 28 August 2002, amounting to HK\$62,573,000.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 76 and 77 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately HK\$72 million on construction of a research and development complex and new factory buildings situated in the PRC. The Group also acquired additional plant and machinery at a cost of approximately HK\$53 million for business expansion of production facilities. Details of these and other movements during the year in the plant and machinery of the Group are set out in note 13 to the financial statements.

## Directors' Report *(continued)*

### **BORROWINGS**

Details of secured bank borrowings of the Group are set out in note 26 to the financial statements.

No interest was capitalised by the Group during the year.

### **SHARE CAPITAL**

Details of movements during the year in the share capital of the Company are set out in note 28 to the financial statements.

### **SHARE PREMIUM AND RESERVES**

Details of movements during the year in the share premium and reserves of the Group and the Company are set out in note 30 to the financial statements.

### **DIRECTORS**

The directors of the Company for the year and up to the date of this report were:

#### *Executive directors:*

Wong Wang Sang, Stephen – Chairman  
Kuo Teng Yeuk  
Ng Kam Fai  
Wong Pui Sing  
Ding Kai

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

So Hon Cheung, Stephen  
Liu Juh, James  
Li Weibin

In accordance with Clauses 86 and 87 of the Company's Bye-laws, Wong Wang Sang, Stephen, Wong Pui Sing and So Hon Cheung, Stephen retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other directors continue in office.

All directors are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's Bye-laws.

### **DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 April 2000.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a 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 statutory compensation.

### DIRECTORS' INTERESTS IN SHARES AND OPTIONS

#### (a) Shares

At 31 March 2002, the interests of the directors and their associates' interests in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Type of interest	Number of shares
Wong Wang Sang, Stephen	Family <i>(note)</i>	819,719,000
	Personal	12,500,000
Kuo Teng Yeuk	Personal	70,517,000
Ng Kam Fai	Personal	57,443,000
Wong Pui Sing	Personal	24,935,000
Ding Kai	Personal	14,935,000

*Note:* These shares are held as to 816,768,000 shares by Target Success Group Limited in its capacity as trustee of the Skysource Unit Trust and as to 2,951,000 shares by the wife of Wong Wang Sang, Stephen ("Mr. Wong"). These shares are deemed Mr. Wong's interests under the SDI Ordinance.

Other than as disclosed above, as at 31 March 2002, none of the directors or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 March 2002.

#### (b) Share options

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 27 March 2000 for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 27 March 2010. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees (including executive directors) of the Company, any of its subsidiaries and associated companies, to subscribe for shares in the Company.

At 31 March 2002, the number of shares in respect of which options had been granted under the Scheme was 160,329,000, representing 7.7% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue from time to time.

### DIRECTORS' INTERESTS IN SHARES AND OPTIONS *(Continued)*

#### **(b) Share options *(continued)***

Options granted must be taken up within a period of 30 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised in 2, 3 or 4 equal portions. The first portion is exercisable at any time commencing on the first anniversary date from the date of grant of the share option, and each further portion becomes exercisable on the next anniversary date in each of the following years. All of the options, if not otherwise exercised, will lapse on 27 March 2010.

The directors noted that an announcement was issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 August 2001 to introduce certain amendments to Chapter 17 (Equity Securities – Share Schemes) of the Listing Rules and that such amendments became effective on 1 September 2001.

Prior to 1 September 2001, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. With effect from 1 September 2001, the exercise price is determined by the directors of the Company, 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.

As the existing Scheme no longer complies with the amended rules in the Listing Rules governing share schemes, no further option can be granted under the existing Scheme from 1 September 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the existing Scheme will continue to be exercisable in accordance with the existing Scheme. In compliance with the amended Chapter 17 of the Listing Rules, the Board proposes that a new share option scheme be adopted and the existing Scheme be terminated, subject to the approval of the shareholders.

The directors do not consider it appropriate to disclose a theoretical value of the share options of the Company granted during the year because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful, and would be misleading.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## Directors' Report *(continued)*

### DIRECTORS' INTERESTS IN SHARES AND OPTIONS *(Continued)*

#### (b) Share options *(continued)*

As at 31 March 2002, certain directors of the Company had personal interests in share options granted under the Company's employee share option scheme as follows:

Name of director	Consideration paid for the option granted <i>HK\$</i>	Date of grant	Exercise price <i>HK\$</i>	Exercisable period	Number of share options		
					Outstanding at 1 April 2001	Exercised during the year	Outstanding at 31 March 2002
<b>Director</b>							
Wong Wang Sang, Stephen	1.00	25.11.2000	0.336	25.11.2001 to 27.3.2010	12,500,000	(12,500,000)	–
			0.336	25.11.2002 to 27.3.2010	12,500,000	–	12,500,000
			0.336	25.11.2003 to 27.3.2010	12,500,000	–	12,500,000
			0.336	25.11.2004 to 27.3.2010	12,500,000	–	12,500,000
Kuo Teng Yeuk	1.00	25.11.2000	0.336	25.11.2001 to 27.3.2010	3,500,000	(3,500,000)	–
			0.336	25.11.2002 to 27.3.2010	3,500,000	–	3,500,000
			0.336	25.11.2003 to 27.3.2010	3,500,000	–	3,500,000
			0.336	25.11.2004 to 27.3.2010	3,500,000	–	3,500,000
Ng Kam Fai	1.00	25.11.2000	0.336	25.11.2001 to 27.3.2010	3,000,000	–	3,000,000
			0.336	25.11.2002 to 27.3.2010	3,000,000	–	3,000,000
			0.336	25.11.2003 to 27.3.2010	3,000,000	–	3,000,000
			0.336	25.11.2004 to 27.3.2010	3,000,000	–	3,000,000

## Directors' Report *(continued)*

### DIRECTORS' INTERESTS IN SHARES AND OPTIONS *(Continued)*

#### (b) Share options *(continued)*

Name of director	Consideration paid for the option granted HK\$	Date of grant	Exercise price HK\$	Exercisable period	Number of share options		
					Outstanding at 1 April 2001	Exercised during the year	Outstanding at 31 March 2002
Ding Kai	1.00	25.11.2000	0.336	25.11.2001 to 27.3.2010	1,000,000	(1,000,000)	–
			0.336	25.11.2002 to 27.3.2010	1,000,000	–	1,000,000
			0.336	25.11.2003 to 27.3.2010	1,000,000	–	1,000,000
			0.336	25.11.2004 to 27.3.2010	1,000,000	–	1,000,000
Wong Pui Sing	1.00	25.11.2000	0.336	25.11.2001 to 27.3.2010	1,000,000	(1,000,000)	–
			0.336	25.11.2002 to 27.3.2010	1,000,000	–	1,000,000
			0.336	25.11.2003 to 27.3.2010	1,000,000	–	1,000,000
			0.336	25.11.2004 to 27.3.2010	1,000,000	–	1,000,000

No share option was granted to the directors during the year.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debenture of the Company or any other body corporate and none of the directors, or their spouses 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 *(continued)*

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholders as having an interest of 10% or more of the issued share capital of the Company:

Name	Number of shares	Approximate percentage of issued shares held
Target Success Group Limited	816,768,000 <i>(note)</i>	39.31%
HSBC International Trustee Limited	816,768,000 <i>(note)</i>	39.31%

*Note:* They held the shares of the Company in the respective capacities as trustee (in the case of Target Success Group Limited) of the Skysource Unit Trust (all of the units in which are owned by Skysource Trust) and (in the case of HSBC International Trustee Limited) of the Skysource Trust.

Other than 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.

### CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in note 39 to the financial statements:

- (i) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"); and
- (ii) no contracts of significance subsisted at any time during the year to which the Company or 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.

### 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, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

### RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 38 to the financial statements.

## Directors' Report *(continued)*

### EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2002 the Group employed a total of about 5,250 employees, of which about 5,170 were employed in Mainland China.

The Group offers a competitive remuneration package to its employees, including insurance and medical benefits. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's performance and individual performance.

### EXCHANGE RISK

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, HK dollars or US dollars, the directors believe that the operations of the Group are not subject to significant exchange risk.

### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Up to the date of approval of these financial statements, the Audit Committee has held eight meetings during the year and up to the date of this report.

### AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Wong Wang Sang, Stephen**

*Chairman*

23 July 2002