

# REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st March 2003.

## 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 2003 are set out in the consolidated profit and loss account on page 37 of the accounts.

The Directors declared an interim dividend of 0.51 US cents (4 HK cents) per share, totalling US\$18,840,000, which was paid on 3rd January 2003.

The Directors recommend the payment of a final dividend of 1.15 US cents (9 HK cents) per share, totalling US\$42,390,000, payable on 24th July 2003.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the accounts.

## Donations

During the year, the Group made charitable and other donations of US\$224,000 (2002: US\$223,000).

## Fixed Assets

Details of the movements in properties, plant and equipment are shown in note 13 to the accounts.

## Share Capital

Details of the movements in share capital are shown in note 26 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

Li Fook-Wo CBE, LLD, DSSc, FCIB, FHKIB, JP (retired and resigned on 31st March 2003)

Peter Stuart Allenby Edwards

Peter John Wrangham

Patrick Blackwell Paul (appointed on 29th July 2002 for a period of two years)

Richard Wang Li-Chung

Arkadi Kuhlmann (appointed on 5th June 2003 for a period of two years)

Oscar De Paula Bernardes Neto (appointed on 5th June 2003 for a period of two years)

Peter Wang Kin Chung

David Wylie Gairns JP (resigned on 31st August 2002)

Ian Lorne Thompson Conn

In accordance with Bye-law 109(A) of the Company's Bye-Laws, Ms. Winnie Wang Wing Yee, Mr. Peter John Wrangham and Mr. Richard Wang Li-Chung 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, Mr. Arkadi Kuhlmann and Mr. Oscar De Paula Bernardes Neto retire from office and being eligible, offer themselves for re-election.

### 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.

### Directors' Interests

At 31st March 2003, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance of Hong Kong) notified to the Company pursuant to Section 28 of that Ordinance (including interests which they are deemed or taken to have under Section 31 or Part I of the Schedule to that Ordinance) or which are required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein were as follows:

Name	Shares in the Company of HK\$0.0125 each	
	Personal Interests	Other Interests
Wang Koo Yik Chun	-	2,190,210,880 *#
Peter Stuart Allenby Edwards	-	100,000 **
Peter John Wrangham	160,000	-
Ian Lorne Thompson Conn	70,000	-

\* *These shares are held, directly or indirectly, by the trustees of various trusts associated with the Wang family.*

# *Duplications of shareholdings occur among and between the parties shown below under the Substantial Shareholders.*

\*\* *These shares are held under a trust of which Peter Stuart Allenby Edwards is one of the beneficiaries.*

Save as disclosed herein, at 31st March 2003, none of the Directors had any interest in the share capital or debt securities of the Company or any associated corporation (as so defined) notified to the Company pursuant to Section 28 of the Securities (Disclosure of Interests) Ordinance (including interests which they are deemed or taken to have under Section 31 or Part I of the Schedule to that Ordinance) or which will be required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein.

No contracts of significance in relation to the Company's business to which the Company or 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.

## 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 to 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 provides 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 2003 are as follows:-

Type of grantees	Time of grant	Exercise period	Subscription price per share (HK\$)	Number of options granted
Employees	September 2002*	1st August 2004 –	7.90	100,000
		16th September 2012	8.02	750,000
		1st August 2005 –	7.90	100,000
		16th September 2012	8.02	750,000
				1,700,000

\* At the date before the options were granted, 16th September 2002, the market value per share was HK\$8.10.

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

### 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 in relation to the Company’s performance in terms of total shareholder return, cash value added, and other appropriate performance indicators over a defined three-year period. The first three-year performance cycle under the Incentive Share Scheme began on 1st April 1999 and ended on 31st March 2002. Thereafter, three-year performance cycles are initiated on an annual basis. After the end of the first performance cycle, the eligible employees were awarded notional cash long term bonuses which were used to acquire shares in the open market subject to the terms of the Incentive Share Scheme. One-third of the shares awarded under the Incentive Share Scheme vested in the eligible employees immediately. The remaining two-third of the shares were held in a custodian account, of which 50% will vest 12 months and 50% will vest 24 months.

Details of the shares vested in the eligible employees under the Incentive Share Scheme as at 31st March 2003 are as follows:-

Year of grant of shares	Number of shares purchased	Purchase price (HK\$)	Shares awarded		Shares will be awarded	
			2002	2003	2004	2005
2002	288,900	9.00	96,300	96,300	96,300	-
2003	154,917	9.50	-	51,639	51,639	51,639
			96,300	147,939	147,939	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.

### Pre-emptive Rights

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

### Substantial Shareholders

As at 31st March 2003, the interests of every person, in the share capital of the Company as recorded in the register required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance were as follows:

Name	Shares of HK\$0.0125 each
Bermuda Trust (Guernsey) Limited	358,972,480
Ansbacher (Bahamas) Limited	887,040,000
HSBC International Trustee Limited	965,863,000
HSBC Private Banking Holdings (Suisse) SA	965,863,000
HSBC Europe (Netherlands) BV	965,863,000
HSBC Europe BV	965,863,000
Griffin International Limited	965,863,000
Midcorp Limited	965,863,000
HSBC Bank plc	965,863,000
HSBC Holdings plc	983,697,117

The shares in which Bermuda Trust (Guernsey) Limited and Ansbacher (Bahamas) Limited are interested and 944,198,400 of the shares in which HSBC International Trustee Limited is interested are 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 is interested as referred to above under Directors' Interests.

The shares in which HSBC International Trustee Limited is interested are all the shares in which HSBC Private Banking Holdings (Suisse) SA is interested, which are all the shares in which HSBC Europe (Netherlands) BV is interested, which are all the shares in which HSBC Europe BV is interested, which are all the shares in which Griffin International Limited is interested, which are all the shares in which Midcorp Limited is interested, which are all the shares in which HSBC Bank plc is interested, which form part of the shares in which HSBC Holdings plc is interested, all of which are the same shares.

Save as disclosed herein, as at 31st March 2003, according to the register of interests of shares and, so far as the Directors are aware, there were no persons who, directly or indirectly, held or were beneficially interested in shares representing 10 per cent. or more of the issued share capital of the Company or (save for the Company) its subsidiaries and there was no other interest or right recorded in the register required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance.

### 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.

### **Audit Committee**

The Audit Committee was established in 1999. Its members are appointed from the Independent Non-executive Directors, with the Chairman having appropriate professional qualifications and experience in financial matters. The members of the Audit Committee are Mr. Patrick Paul, who was appointed as the Chairman of the Committee on 31st August 2002 in place of Mr. David Wylie Gairns who resigned on the same date, and Mr. Ian Conn.

During the year, the Audit Committee met three times with the Group's senior management and the external auditors to consider and review the Group's financial statements, the nature and scope of audit reviews, and the effectiveness of the system of internal control and compliance. The Committee reviewed the unaudited interim accounts and the audited accounts for 2003 before recommending them to the Board for approval.

### **Code of Best Practice**

Throughout the accounting period, the Company was in compliance with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules of the Stock Exchange except that some of the Independent Non-executive Directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-Laws.

### **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, 5th June 2003*