

# 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 2003.

## 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 35 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 2003 are set out in the consolidated income statement on page 21.

An interim dividend of HK2 cents (*2002: HK2 cents*) per share, totaling HK\$5,669,000 was paid on 27 October 2003. The Directors now recommend the payment of a final dividend of HK8 cents (*2002: HK6 cents*) per share in respect of the year ended 31 December 2003. Subject to the approval at the forthcoming annual general meeting, the final dividend will be payable on or after 9 June 2004 to the shareholders whose names appear on the register of members at the close of the business on 19 May 2004.

The register of members of the Company will be closed from 14 May 2004 to 19 May 2004 (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 13 May 2004.

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 59 to 60.

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### 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 are as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	19%	–
Five largest customers in aggregate	53%	–
The largest supplier	–	19%
Five largest suppliers in aggregate	–	38%

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\$27,342,000 (2002: HK\$29,360,000) on additions to property, plant and equipment mainly to further upgrade its manufacturing capabilities. 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 24 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 26 to the financial statements.

As at 31 December 2003, the Company's reserves available for cash distribution amounted to HK\$127,885,000 (2002: HK\$100,876,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK\$90,126,000 (2002: HK\$87,719,000) as at 31 December 2003 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\$1,560,000 (2002: HK\$3,183,000).

## 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 (appointed on 9 June 2003)

Ms. Chau King Nui, Helen (resigned on 3 July 2003)

#### Independent Non-executive Directors

Mr. Gordon Ng

Mr. Leung Shu Yin, William

The following Director was appointed after the end of the financial year:

Mr. Ho Hung Chu, Peter (*Chief Executive Officer*)

(appointed on 5 January 2004)

Independent Non-executive Directors are not appointed for a specific term. 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. Gordon Ng 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. David, Stephen Briskie and Mr. Ho Hung Chu, Peter shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### 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 a not less than twelve months' notice in writing served by either party on the order.

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

Mr. David, Stephen Briskie has entered into a service contract with the Company, which may be terminated by a not less than three months' notice in writing served by either party on the other. 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.

## Report of the Directors

### Directors' Service Contracts (continued)

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 34 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

The Group had the following transactions with connected parties during the year:

1. 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.
2. On 22 December 2003, Drew Pearson Marketing, Inc. ("DPM") and Drew Pearson International, Inc. ("DPI"), two of the subsidiaries of the Company, entered into an agreement with Mr. Drew Pearson, a substantial shareholder of DPM and DPI, pursuant to which DPM and DPI purchased from Mr. Pearson 14.29% shareholding in DPM and 20% shareholding in DPI respectively at a respective cash consideration of HK\$5,926,000 and HK\$8. DPM and DPI have become wholly owned subsidiaries of the Group upon the completion of the transactions on 31 December 2003. The transactions would facilitate the Group to restructure the operations of DPM and DPI so as to better utilise their resources to promote the business of the Group.

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

The above transactions have all been confirmed by the Independent Non-executive Directors of the Company.

### Directors' Interests in Shares and Underlying Shares

As at 31 December 2003, 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:

## Report of the Directors

### Directors' Interests in Shares and Underlying Shares (continued)

#### 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	67.04%
Madam Ngan Po Ling, Pauline	–	190,000,000 (note 1)	–	190,000,000	67.04%
Mr. David, Stephen Briskie	4,370,690	–	2,680,000 (note 2)	7,050,690	2.49%

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.

### 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. In addition, there are varying restrictions imposed on the proportions of options exercisable during the initial years of the option periods.

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.

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### Share Option Schemes (continued)

At 31 December 2003, 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\$2.625 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 1.1.2003	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31.12.2003	Market value per share at date of grant (HK\$)
<b>Old Scheme</b>									
Employees	11.06.2001	11.06.2002 – 10.06.2009	1.228	6,951,000	–	(1,022,000)	(2,134,000)	3,795,000	1.54
							(Note)		
<b>New Scheme</b>									
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	9,355,000	–	(385,000)	–	8,970,000	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	–	–	12,200,000	2.30
				9,355,000	13,320,000	(385,000)	–	22,290,000	
Customers and suppliers	03.07.2002	03.07.2003 – 02.07.2010	2.700	3,950,000	–	(2,000,000)	–	1,950,000	2.70
	03.06.2003	03.06.2004 – 02.06.2013	2.300	–	600,000	–	–	600,000	2.30
				3,950,000	600,000	(2,000,000)	–	2,550,000	

Note: The closing price of shares immediately before the dates on which options were exercised was HK\$2.55.

## Report of the Directors

### Share Option Schemes (continued)

The share options are not recognised in the financial statements until they are exercised. The Directors are of the view that the calculation of the value of share options granted by the Company during the year depends on a number of variables, which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. As such, the value of share options is not presented in these financial statements.

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 2003, 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	67.04%
Amex International Trust (Cayman) Ltd. (note)	Trustee	190,000,000	67.04%
Templeton Asset Management Limited	Investment manager	18,000,000	6.35%

Note: Successful Years International Co., Ltd. is owned by NHKTrust and NPLTrust 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 2003, 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.

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### Retirement Schemes

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

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

During the year ended 31 December 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

### Code of Best Practice

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, throughout the year, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules 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.

### Audit Committee

The Audit Committee comprises two Independent Non-executive Directors of the Company. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group.

### Auditors

The auditors, Messrs. Moores Rowland merged with Messrs. Mazars on 1 October 2003 and are now practicing under the name of Moores Rowland Mazars.

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, 14 April 2004