

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 20.

An interim dividend of HK0.5 cent per share amounting to approximately HK\$1,409,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 3.5 cents per share to the shareholders on the register of members on 18th May, 2004, amounting to approximately HK\$10,724,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for approximately 59% of the total purchases of the Group and the largest supplier accounted for approximately 30% of the total purchases of the Group.

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

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the year end date. The revaluation resulted in a deficit of approximately HK\$100,000, which has been charged directly to the consolidated income statement.

Details of this movement during the year in the investment properties of the Group are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended approximately HK\$9.4 million on property, plant and equipment during the year.

Details of this and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movement during the year in the share capital of the Company are set out in note 23 to the financial statements.

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SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 29 to the financial statements.

The following table discloses movements in the Company's share options during the year:

	Option type	At 1.1.2003	Number of share options		At 31.12.2003
			Granted during the year	Exercised during the year	
Directors					
Mr. Ip Siu On	A	700,000	–	(700,000)	–
	B	–	2,000,000	(2,000,000)	–
Mr. Tsui Yan Lee, Benjamin	A	700,000	–	(700,000)	–
	B	–	2,000,000	(2,000,000)	–
		<u>1,400,000</u>	<u>4,000,000</u>	<u>(5,400,000)</u>	<u>–</u>
Employees					
	A	2,300,000	–	(2,300,000)	–
	B	–	3,000,000	(3,000,000)	–
	C	–	3,700,000	–	3,700,000
		<u>2,300,000</u>	<u>6,700,000</u>	<u>(5,300,000)</u>	<u>3,700,000</u>
Others					
	A	1,000,000	–	–	1,000,000
	B	–	1,000,000	(1,000,000)	–
		<u>1,000,000</u>	<u>1,000,000</u>	<u>(1,000,000)</u>	<u>1,000,000</u>
Total		<u>4,700,000</u>	<u>11,700,000</u>	<u>(11,700,000)</u>	<u>4,700,000</u>

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
A	5th June, 2002	5th July, 2002 – 17th May, 2012	0.664
B	8th January, 2003	8th February, 2003 – 31st December, 2011	0.592
C	2nd July, 2003	2nd August, 2003 – 31st December, 2011	0.638

The closing prices of the Company's shares immediately before 5th June, 2002, 8th January, 2003 and 2nd July, 2003, the dates of grant of the options, were HK\$0.64, HK\$0.59 and HK\$0.73 respectively.

Share options were exercised on various dates from 14th April, 2003 to 2nd July, 2003. The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised during such period ranged from HK\$0.62 to HK\$0.74.

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SHARE OPTIONS (cont'd)

The directors of the Company considered that it is not appropriate to value share options granted under the option scheme during the year as a number of factors critical for the valuation of the share options granted cannot be determined accurately. In the absence of readily available market value of the options under the option scheme, any valuation of the share options would be meaningless and could be misleading to the shareholders.

DIRECTORS

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

Executive directors

Mr. Poon Siu Chung
(Chairman and Managing Director)

Mr. Leung Ying Wai, Charles
(Deputy Managing Director)

Mr. Ip Siu On

Mr. Tsui Yan Lee, Benjamin

Independent non-executive directors

Mr. Ng Siu Yu, Larry

Mr. Tong Wui Tung

In accordance with Clause 99(B) of the Company's bye-laws, Mr. Leung Ying Wai, Charles and Mr. Ip Siu On retire by rotation and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

All non-executive directors have been appointed for a term of one year.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2003, the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

(A) Long positions in shares of the Company

Director	Capacity	No. of shares held	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner	6,232,000		
	Interest of spouse and controlled corporation	101,757,630	107,989,630 (a)	38.34
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	22.40

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DIRECTORS' INTERESTS IN SHARES (cont'd)

(A) Long positions in shares of the Company (cont'd)

Director	Capacity	No. of shares held	Total	% of issued share capital of the Company
Mr. Ip Siu On	Beneficial owner	9,803,600	9,803,600	3.48
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	7,111,000	7,111,000	2.52
Mr. Ng Siu Yun, Larry	Beneficial owner	880,000	880,000	0.31

Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 6,232,000 shares of the Company and he was deemed to be interested in 101,757,630 shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor. Of these shares, 618,200 shares are held in trust for others.
- (b) Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, his spouse, Ms. Tai Yee Foon and his family members.

(B) Long position in shares of associated corporations of the Company

Director	Name of associated corporation	Capacity	No. of shares held	Total	% of issued share capital of the associated corporation
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner	200	400 (c)	50
		Interest of spouse	200		
	Sunflower Garland Manufactory Limited	Beneficial owner	60,800	81,600 (d)	51
		Interest of spouse	20,800		
Mr. Leung Ying Wai, Charles	Perfectech International Limited	Interest of spouse	400	400 (e)	50
Mr. Ip Siu On	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18
Mr. Tsui Yan Lee, Benjamin	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18

DIRECTORS' INTERESTS IN SHARES (cont'd)

(B) Long position in shares of associated corporations of the Company (cont'd)

Notes:

- (c) Mr. Poon Siu Chung was the beneficial owner of 200 non-voting deferred shares ("Perfectech Shares") of HK\$100 each in Perfectech International Limited, a subsidiary of the Company and was deemed to be interested in 200 Perfectech Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (d) Mr. Poon Siu Chung was the beneficial owner of 60,800 non-voting deferred shares ("Sunflower Shares") of HK\$1 each in Sunflower Garland Manufactory Limited, a subsidiary of the Company and was deemed to be interested in 20,800 Sunflower Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (e) Mr. Leung Ying Wai, Charles was deemed to be interested in 400 Perfectech Shares through interests of his spouse, Ms. Tai Yee Foon.

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the directors, nor their associates, had any interests or short positions in any securities of the Company or any of its associated corporations as defined in the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, at no time during the year was the Company or 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 debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) During the year, Perfectech International Limited ("Perfectech"), a wholly-owned subsidiary of the Company, renewed tenancy agreements to rent the following premises from Nice Step Investment Limited, a company controlled by Mr. Leung Ying Wai, Charles, a substantial shareholder and director of the Company:
 - (i) premises at the 2nd floor (with gross floor area of approximately 5,070 sq. ft.) and car parking space No.3 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 20th April, 2003 at a monthly rent of HK\$21,266.
 - (ii) premises at the 3rd floor (with gross floor area of approximately 5,070 sq. ft.) and car parking space No.4 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 20th April, 2003 at a monthly rent of HK\$21,266.
 - (iii) premises at the 4th floor (with gross floor area of approximately 3,096 sq. ft.), flat roof at the 4th floor (with gross floor area of approximately 1,963 sq. ft.) and car parking space No.5 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 20th April, 2003 at a monthly rent of HK\$18,280.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS (cont'd)

- (iv) premises at the 5th floor (with gross floor area of approximately 3,096 sq. ft.) of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 15th August, 2003 at a monthly rent of HK\$10,836.

During the year, the Group paid rental expenses of approximately HK\$801,000 to Nice Step Investment Limited, a company controlled by Mr. Leung Ying Wai, Charles, a substantial shareholder and director of the Company.

- (b) On 21st January, 2002, Perfectech entered into a tenancy agreement with Mr. Poon Siu Chung, a substantial shareholder and director of the Company, in relation to premises at Nos. 34 and 35 of Xiazha Industrial Street, Jinding Town, Zhuhai, the People's Republic of China, for a monthly rent of HK\$14,000 for a period of three years commencing from 1st January, 2002. The said premises are used by the Group as factories. The total rent payable by the Group for the premises for the full period of the tenancy under the aforesaid tenancy agreement will amount to HK\$504,000. During the year, the Group paid rent to Mr. Poon Sui Chung totalling HK\$168,000.
- (c) During the year, the Group issued guarantees to financial institutions to secure general banking facilities granted to the Group including its subsidiaries which are not wholly-owned by the Group, known as Perfectech Paper Products Company Limited ("Paper"), Perfectech Printing Company Limited ("Printing") and Benefit Packing Materials Limited ("Benefit"). Details of the guarantees as at 31st December, 2003 are as follows:

Subsidiaries connected	In favour of	Guarantee amount	Amount utilised
		<i>HK\$</i>	<i>HK\$</i>
Benefit, Paper and Printing	Standard Chartered Bank	33,800,000	—
Benefit and Paper	Dao Heng Bank Limited	22,000,000	—
Benefit and Paper	ING Bank	25,500,000	—
Benefit and Paper	BNP PARIBAS	25,000,000	—
Benefit	CITIC Ka Wah Bank	40,000,000	—
Benefit, Paper and Printing	The Hongkong and Shanghai Banking Corporation Limited	90,000,000	—

- (d) During the year, the Group paid professional fees to Messrs. Cheung, Tong & Rosa, legal advisers to the Company on Hong Kong law, in connection with services rendered to the Group amounting to HK\$107,000. Mr. Tong Wui Tung and Ms. Pang Siu Yin, an independent non-executive director and company secretary of the Company respectively, are partners of Messrs. Cheung, Tong & Rosa.
- (e) During the year, the Group paid printing fees to Run All Limited in connection with its services rendered to the Group amounting to HK\$263,000. Mr. Ng Siu Yu, Larry, an independent non-executive director of the Company, has beneficial interests in that company.

The independent non-executive directors confirm that the transactions have been entered into by the Group in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS (cont'd)

Other than as disclosed above, no contracts of significance 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.

INTEREST OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

Other than the interests disclosed above in the section "Directors' Interests in Shares", as at 31st December, 2003, the register of substantial shareholders' interests and short position maintained under Section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more held in the shares and underlying shares of the Company.

Long positions in shares of the Company

Shareholder	Capacity	No. of shares held	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Interest of spouse and controlled corporation	107,989,630 (a)	38.34
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200 (b)	22.40
Takefuji Corporation	Beneficial owner	25,825,800	9.17

Notes:

- (a) Ms. Lau Kwai Ngor was deemed to be interested in 107,989,630 shares through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 6,232,000 shares of the Company and he was deemed to be interested in 101,757,630 shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor. Of these shares, 618,200 shares are held in trust for others.
- (b) Ms. Tai Yee Foon was deemed to be interested in 63,097,200 shares through interests of her spouse, Mr. Leung Ying Wai, Charles. Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, his spouse, Ms. Tai Yee Foon and his family members.

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.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Directors' Report

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AUDITORS

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

On behalf of the Board

Poon Siu Chung
Chairman & Managing Director

Hong Kong, 15th April, 2004

