

# Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 12 to the accounts.

Details of analysis of the Group's turnover and contribution to operating profit for the year by business and geographical segment is set out in note 2 to the accounts.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated profit and loss account on page 18.

The board of directors has declared an interim dividend of HK1.0 cent per ordinary share, totalling HK\$15,289,000, which was paid on 6th November 2003.

The board of directors recommends the payment of a final dividend of HK1.5 cents per share, totalling HK\$22,933,000 in respect of the year ended 31st December 2003.

## **RESERVES**

Movements in the reserves of the Group and of the Company during the year are set out in note 24 to the accounts.

## **DISTRIBUTABLE RESERVES**

Distributable reserves of the Company as at 31st December 2003 amounted to HK\$182,399,000 (before the declaration of a final dividend), comprising share premium, contributed surplus and retained profits.

## **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

## **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

## **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 page 57.

## **Report of the Directors**

### **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.

### **DIRECTORS**

The directors during the year were:

#### *Executive directors*

Chang Wen I (*Chairman*)  
Chen Hsien Min (*Managing Director*)  
Chen Ying-Chieh

#### *Independent non-executive directors*

Kuo Jung-Cheng  
Huang Shun-Tsai

In accordance with Article 99 of the Company's Articles of Association, Mr Kuo Jung-Cheng retires by rotation and, being eligible, offers himself for re-election.

### **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Brief biographical details of directors and senior management are set out on pages 8 and 9.

### **DIRECTORS' SERVICE CONTRACTS**

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance in relation to the Group's business 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.

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### SHARE OPTIONS

The share option scheme of the Company adopted on 9th October 1995 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was approved by the shareholders at an extraordinary general meeting held on 29th May 2003 to comply with Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As a result, the Company may no longer grant further options under the Old Share Option Scheme and no share options granted under the Old Share Option Scheme were outstanding as at 31st December 2003.

Details of the New Share Option Scheme are as follows:

**i) Purpose**

The purpose of the scheme is to provide incentives to the employees, including any executive or non-executive directors and officers of the Company and its subsidiaries, to contribute to the Company and to enable the Company to recruit high-calibre employees and attract or retain human resources that are valuable to the Group.

**ii) Qualifying participants**

Any individual is an employee, officer, agent or consultant of the Company or any subsidiary including any executive or non-executive director.

**iii) Maximum number of shares**

The total number of shares which may be issued upon exercise of all options to be granted under the scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the scheme if this will result in such limit exceed. As at 31st December 2003, the number of shares available for issue in respect thereof is 90,339,238 shares.

**iv) Limit for each participant**

The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

**v) Option period**

The option period within which the shares must be taken up an option shall be determined by the board of directors in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

The board of directors has the authority to determine the minimum period for which an option must be held before it can vest. The scheme itself does not specify any minimum holding period.

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### SHARE OPTIONS *(Continued)*

#### vi) Acceptance and payment on acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of grant. A consideration of HK\$1 shall be paid by a participant upon the acceptance of the option.

#### vii) Subscription price

The subscription price must be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the grant date; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date; and (c) the nominal value of the shares.

#### viii) Remaining life of the scheme

The board of directors is entitled at any time within 10 years between 29th May 2003 and 28th May 2013 to offer the grant of an option to any qualifying participants.

Details of the share options outstanding as at 31st December 2003 which were granted under the New Share Option Scheme are as follows:

	Number of options				Exercise price HK\$	Grant date	Exercisable period
	Held at 1st January 2003	Granted during the year	Exercised during the year	Held at 31st December 2003			
Category I: Directors of the Company							
Chang Wen I	–	14,500,000 <i>(Note 1)</i>	–	14,500,000	0.20	28th July 2003	28th July 2003 to 27th July 2009
Chen Hsien Min	–	14,500,000 <i>(Note 1)</i>	(14,500,000) <i>(Note 2)</i>	–	0.20	28th July 2003	28th July 2003 to 27th July 2009
Chen Ying-Chieh	–	14,500,000 <i>(Note 1)</i>	–	14,500,000	0.20	28th July 2003	28th July 2003 to 27th July 2009
Category II:							
Employees	–	16,000,000 <i>(Note 1)</i>	(16,000,000) <i>(Note 3)</i>	–	0.16	1st July 2003	1st July 2003 to 30th June 2009

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### SHARE OPTIONS (Continued)

#### Notes:

1. At the date before the options were granted on 1st July 2003 and 28th July 2003, the market value per share was HK\$0.137 and HK\$0.200, respectively.
2. The options were exercised on 25th October 2003. At the date before the options were exercised, the market value per share was HK\$0.310.
3. 8,000,000 options were exercised on 23rd October 2003 and the remaining 8,000,000 options were exercised on 25th October 2003. At the date before the options were exercised, the market value per share was HK\$0.305 and HK\$0.310, respectively.
4. The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial year. The directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumption would be meaningless and could be misleading to the shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31st December 2003, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company and of its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept 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:

#### Ordinary shares of HK\$0.10 each of the Company

Name of director	Nature of interest	Number of shares held	Percentage
Chen Hsien Min	Long position Personal	14,500,000	0.95%

In addition to the above, Mr Chang Wen I, Chairman of the Company, and Mr Chen Hsien Min, Managing Director of the Company, also hold non-voting deferred shares and nominee shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

Save as disclosed above, as at 31st December 2003, none of the directors or chief executive, nor any of their associates (including their spouses and children under 18 years of age), had any interests in or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations as defined by the SFO.

Saved as disclosed under the section headed "Share Options"; at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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### SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December 2003, other than the interests and short positions of the directors or chief executive of the Company as disclosed above, the following persons had interests and short positions in the shares of the Company which fall to be disclosed to the Company under Section 336 of the SFO:

Name	Interest held		Number of shares held	Percentage
Lucky Earn International Limited	Long position	Corporate	449,669,995 (Note 1)	29.41%
Top Glory Assets Limited	Long position	Corporate	217,692,895 (Note 2)	14.24%
Pushkin Holding Ltd.	Long position	Corporate	149,838,920 (Note 3)	9.80%

Notes:

1. Mr Chang Wen I, Chairman of the Company and his four children, have beneficial interests in 4% and 24% each in Lucky Earn International Limited, a company incorporated in the British Virgin Islands, respectively.
2. Two children of Mr Chen Hsien Min, Managing Director of the Company have beneficial interests in 50% each in Top Glory Assets Limited, a company incorporated in the British Virgin Islands, respectively.
3. A brother of Mr Chen Ying-Chieh, a director of the Company, has 60% of the issued share capital of Pushkin Holding Ltd., a company incorporated in the British Virgin Islands.

### 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.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales for the year attributable to the Group's largest customer and five largest customers combined are 9% and 35%, respectively.

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers.

None of 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 an interest in the major customers of the Group noted above.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was 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 of the Company were not appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Article of Association.

## ***Report of the Directors***

### **AUDIT COMMITTEE**

The Audit Committee is composed of two independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31st December 2003.

### **AUDITORS**

The accounts for the year ended 31st December 2003 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

The accounts for the year ended 31st December 2001 were audited by Deloitte Touche Tohmatsu.

On behalf of the board

**CHANG Wen I**

*Chairman*

Hong Kong, 20th April 2004