



## REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2003.

### **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 27 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 19 of the annual report.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

### **RESERVES**

Details of movements in the reserves of the Group and of the Company during the year are set out in note 22 to the financial statements.

### **PLANT AND EQUIPMENT**

Details of movements in the plant and equipment of the Group during the year are set out in note 14 to the financial statements.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME

Details of share option scheme of the Company are set out in note 21 to the financial statements.

As at the date of this report, the total number of securities available for issue under the existing share option scheme is 90,905,000 shares, representing 5.7% of the issued share capital of the Company.

The fair value of the options granted in the current year totalled approximately HK\$17,070,852. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

1. an expected volatility of 84.35%;
2. annual dividend rate of 2.5%; and
3. the Hong Kong Exchange Fund Notes rate for the option is 4.434% and is based on the estimated expected life of 10 years.

No charge is recognised in the income statement in respect of the value of options granted in the year.

At 31 December 2003, the number of shares in respect of which options had been granted and remaining outstanding under the share option scheme was 69,095,000, representing 4.3% of the shares of the Company in issue at that date.

A summary of the movements during the year in the Company's share options is as follows:

	<b>Outstanding at 1 January 2003</b>	<b>Granted during the year</b>	<b>Exercised during the year</b>	<b>Outstanding at 31 December 2003</b>
Employees	–	45,370,000	–	45,370,000
Principal buyer	–	12,980,000	–	12,980,000
Suppliers of services	–	10,745,000	–	10,745,000
<b>Total</b>	–	<b>69,095,000</b>	–	<b>69,095,000</b>



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## SHARE OPTION SCHEME (continued)

Details of options granted are as follows:

<b>Date of grant</b>	<b>Exercise period</b>	<b>Closing price immediately before the date of grant HK\$</b>	<b>Exercise price per share HK\$</b>
9 October 2003	10 October 2003 – 28 August 2011	0.38	0.381

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.



# REPORT OF THE DIRECTORS

## **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

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

### **Executive Directors**

Yu Pen Hung

Yu Chi Ming, Frederick

Yen Chung Chuan (appointed on 5 February 2004)

Chen Lee Shu (resigned on 5 February 2004)

### **Independent Non-Executive Directors**

Liu James Juh

Hu Gin Ing

In accordance with the provisions of the Company's Articles of Association, Mr. Yu Chi Ming, Frederick and Mr. Yen Chung Chuan will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Each of the executive directors, except for Mr. Yen Chung Chuan, has entered into a service agreement with the Company under which they are to act as executive directors for an initial term of two years commencing from 1 September 2001 and shall continue thereafter until terminated by either party giving to the other not less than three calendar months' notice in writing. All executive directors may also be entitled to a management bonus provided that the aggregate amount of the bonuses payable to all the executive directors for any financial year of the Company may not exceed 5% of the audited consolidated or combined net profit of the Group after taxation, minority interests and payment of such bonuses but excluding extraordinary items in respect of that financial year of the Group.

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.



## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests of the directors and chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of the Securities and Futures Ordinance (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### Long position

##### Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Mr. Yu Pen Hung	Interest of controlled corporation	1,200,000,000 ( <i>note</i> )	75%

*Note:* These shares are held by E-Career Investments Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Yu Pen Hung.

In addition to the above, a director held interests in the non-voting deferred shares of a wholly-owned subsidiary of the Company as at 31 December 2003 as follows:

Name of subsidiary	Name of director	Number of non-voting deferred shares held
Artel Industries Limited	Mr. Yu Pen Hung	6,400,000 shares of HK\$1 each

Other than as disclosed above and certain nominee shares in subsidiaries held by the directors in trust for the Group, none of the directors or chief executives, or their associates, had any relevant interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2003.



## REPORT OF THE DIRECTORS

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's directors or chief executives or their respective spouses or children under the age of 18 or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding 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.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, in addition to those interests as disclosed above in respect of the directors, the following shareholders had notified the Company of relevant interests in 5% or more of the issued share capital of the Company:

Name	Number of shares held	Approximate percentage of holding
E-Career Investments Limited ( <i>note</i> )	1,200,000,000	75%

Note: The entire issued share capital of E-Career Investments Limited is beneficially owned by Mr. Yu Pen Hung. Both E-Career Investments Limited and Mr. Yu Pen Hung are therefore deemed to have the duplicate interests in the 1,200,000,000 shares of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2003.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for about 50% of the total turnover of the Group and the largest customer accounted for about 26% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for about 100% of its purchases for the year. Purchases from the largest supplier accounted for about 84% of its purchases.



## REPORT OF THE DIRECTORS

None of the directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in any of the five largest customers and the five largest suppliers of the Group for the financial year ended 31 December 2003.

All transactions between the Group and its customers were carried out on normal commercial terms.

### **PRE-EMPTIVE RIGHTS**

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

### **RETIREMENT BENEFIT SCHEMES**

Details of the retirement benefit schemes maintained by the Group are set out in note 26 to the financial statements.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

None of the directors of the Company is interested in any business apart from the Group's business, which competes or is likely to compete either directly or indirectly with business of the Group.

### **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 31 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.

### **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

**Yu Pen Hung**

*Chairman*

Hong Kong, 26 April 2004