

# Directors' Report

Annual Report 2004

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*The Directors are pleased to present their report and the audited consolidated financial statements of Peace Mark (Holdings) Limited (the "Company") and its subsidiaries (together with the Company hereinafter referred to as the "Group") for the year ended 31 March, 2004.*

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the Group's principal subsidiaries are set out in note 17 to the financial statements.

## SEGMENT INFORMATION

An analysis of the Group's segment information is set out in note 4 to the financial statements.

## RESULTS AND APPROPRIATION

Details of the results of the Group for the year ended 31 March, 2004 are set out in the consolidated income statement on page 53 and the accompanying notes to the financial statements. Particulars of dividends proposed and paid during the year are set out in note 11 to the financial statements.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 18 August, 2004 to Friday, 20 August, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 17 August, 2004.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 March, 2004, the reserves of the Company available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$436.8 million. In addition, the share premium of the Company, in the amount of approximately HK\$113.4 million, may be distributed in the form of fully paid bonus shares.

## **FIVE-YEAR FINANCIAL SUMMARY**

A summary of the results of the Group for the last five financial years and the assets and liabilities of the Group as at the end of the last five financial years is set out on pages 116 to 117 of the Annual Report.

## **CHARITABLE DONATIONS**

Charitable donations made by the Group during the year amounted to HK\$0.9 million.

## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group spent approximately HK\$68.9 million on the acquisition of property, plant and equipment. Details of the movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## **INTANGIBLE ASSETS**

Details of the movements in the intangible assets of the Group during the year are set out in note 15 to the financial statements.

## **SUBSIDIARIES**

Particulars of the principal subsidiaries of the Company are set out in note 17 to the financial statements.

## **SHARE CAPITAL**

Details of the movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

## **BORROWINGS**

Particulars of the Group's and Company's borrowings and obligations under finance leases are set out in notes 25 and 26 to the financial statements respectively.

## **RETIREMENT SCHEME BENEFITS**

Details of retirement scheme benefits are set out in note 3(r) (ii) to the financial statements.

## **SUBSEQUENT EVENTS**

Details of the subsequent events of the Group which took place subsequent to 31 March, 2004 and up to the date of the report are set out in note 38 to the financial statements.

## DIRECTORS

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

### *Executive Directors*

Mr. Chau Cham Wong, Patrick (*Chairman*)  
Mr. Leung Yung (*Managing Director*)  
Mr. Tsang Kwong Chiu, Kevin  
Mr. Man Kwok Keung  
Mr. Cheng Kwan Ling

### *Independent Non-Executive Directors*

Sir Oswald Cheung, C.B.E., LL.D., D. Soc. Sc., J.P.  
(*deceased on 10 December, 2003*)  
Ms. Susan So  
Mr. Kwok Ping Ki, Albert  
Mr. Tang Yat Kan  
(*appointed on 18 December, 2003*)  
Mr. Wong Yee Sui, Andrew  
(*appointed on 18 December, 2003*)

In accordance with article 86(2) of the Company's Bye-laws, Mr. Tang Yat Kan and Mr. Wong Yee Sui, Andrew, who were appointed by the Board of Directors, shall hold office until the forthcoming Annual General Meeting and, being eligible, offer himself for re-election. Pursuant to articles 87(1) and 87(2) of the Company's Bye-laws, Mr. Tsang Kwong Chiu, Kevin shall retire and offer himself for re-election at the forthcoming Annual General Meeting. The terms of office of Independent Non-Executive Directors are subject to retirement by rotation in accordance with the Bye-laws.

## DIRECTORS' AND SENIOR MANAGEMENT PROFILES

Biographical details of the Directors of the Company and of the senior management of the Group are set out on pages 30 to 40 of this report.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group, which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 March, 2004, the interests and short positions of the directors of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were 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 or short positions 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 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 (the "Model Code") were as follows:

### A. Directors' interest in the Company

The table below sets out the aggregate long positions in the shares and underlying shares of each director of the Company.

Name of director	Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total interests	Percentage of total issued share capital
Mr. Chau Cham Wong, Patrick	64,621,369	-	266,088,487	82,512,159 (note 1)	-	413,222,015 (note 1)	59.82
Mr. Leung Yung	-	-	348,600,646	64,621,369 (note 2)	-	413,222,015 (note 2)	59.82
Mr. Tsang Kwong Chiu, Kevin	5,948,353	-	-	-	1,150,000 (note 3)	7,098,353	1.03
Mr. Cheng Kwan Ling	243,106	-	-	-	47,000 (note 4)	290,106	0.04
Mr. Tang Yat Kan	-	60,000 (note 5)	-	-	-	60,000	0.00

#### Notes:

1. A Placing and Subscription Agreement was entered into on 30 March, 2004, pursuant to which Cazenove Asia Limited agreed to place a maximum of 93,500,000 shares held by Mr. Chau Cham Wong, Patrick and other entities controlled by him and Mr. Leung Yung, namely, A-ONE INVESTMENTS LIMITED ("A-ONE") and United Success Enterprises Limited ("United Success") (collectively referred to the "Vendors") to independent placees, and the Company agreed to allot new shares upon subscription to the Vendors (the "Placing and Top Up"). As at the end of placing on 30 March, 2004, Mr. Chau Cham Wong, Patrick was deemed to be interested in 82,512,159 shares for the purposes of section 317 of the SFO, representing the deemed interests of the other Vendors, United Success in respect of its holdings pursuant to the Placing and Top Up. As a result of the foregoing, Mr. Chau Cham Wong, Patrick was deemed to be interested in a total of 413,222,015 shares of the Company.

2. Mr. Leung Yung has 49.55% voting control of A-ONE and 100% voting control of United Success, both of which are the Vendors acting in concert with him in the Placing and Top Up. As a result, he was deemed to be interested in 64,621,369 shares of the Company for the purposes of section 317 of the SFO. Consequently, Mr. Leung Yung was deemed to be interested in a total of 413,222,015 shares of the Company.
3. Mr. Tsang Kwong Chiu, Kevin's interests in 1,150,000 shares of the Company arose through holding warrants of the Company.
4. Mr. Cheng Kwan Ling's interests in 47,000 shares of the Company arose through holding warrants of the Company.
5. Mr. Tang Yat Kan was deemed interested in 60,000 shares of the Company as these shares are held by his spouse (who was not a director of the Company).

## B. Short Positions

Name of director	Personal short positions	Family short positions	Corporate short positions	Other short positions	Total short positions	Percentage of total issued share capital
Mr. Chau Cham Wong, Patrick	-	-	-	32,512,752 (note 6)	32,512,752	4.70
Mr. Leung Yung	-	-	-	93,500,000 (note 7)	93,500,000	13.54

### Notes:

6. Under the Placing and Top Up, one of the Vendors, A-ONE (which is 50.45% controlled by Mr. Chau Cham Wong, Patrick) is obligated to place certain shares to independent placees before the allotment and subscription of new shares. As such, Mr. Chau Cham Wong, Patrick was deemed to have a short position of 32,512,752 shares of the Company by virtue of his control of A-ONE.
7. As mentioned in note 2. above, Mr. Leung Yung has interests in two entities which are the Vendors in the Placing and Top Up, which were both obligated to place certain shares to independent placees before the allotment and subscription of new shares. As such, Mr. Leung Yung was deemed to have a short position of 93,500,000 shares of the Company by virtue of his control of A-ONE that held 254,613,398 shares and United Success that held 60,987,248 shares.

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company being held by the Directors in trust for the Company, as at 31 March, 2004, none of the Directors of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) and during the year ended 31 March, 2004, none of the Directors of the Company, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right by any of them, 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.

## SHARE OPTION SCHEME

Share options are granted to the Directors, employees and other eligible persons under the Share Option Scheme of the Company (the "Scheme") adopted on 24 January, 2002. Details of the Scheme are set out in note 30 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March, 2004, the following persons (other than Directors of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

### A. Interests in the Company

Name of substantial shareholder	Number of shares in which interested	Percentage of issued share capital
United Success Enterprises Limited	413,222,015 (note 1)	59.82
A-ONE INVESTMENTS LIMITED	413,222,015 (note 2)	59.82
Arisaig Greater China Fund ("Arisaig")	44,553,964 (note 3)	6.45
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	44,553,964 (note 4)	6.45
Cooper Lindsay William Ernest ("Mr. Cooper")	44,553,964 (note 5)	6.45

*Notes:*

1. United Success was wholly-owned by Mr. Leung Yung. United Success holds 60,987,248 shares directly before the Placing and Top Up. Further, United Success was one of the parties acting in concert under the Placing and Top Up, and so was deemed to be interested in 413,222,015 shares of the Company pursuant to section 317 of the SFO. See also note 2 under the section "Directors' Interest in the Company".

2. Mr. Chau Cham Wong, Patrick controlled 50.45% of A-ONE and Mr. Leung Yung controlled 49.55% of A-ONE. A-ONE holds 254,613,398 shares directly before the Placing and Top Up. Further, A-ONE was one of the parties acting in concert under the Placing and Top Up, and was deemed to be interested in 413,222,015 shares of the Company pursuant to section 317 of the SFO. See also note 2 and note 6 under the section "Directors' Interest in the Company".
3. This represented a direct holding by Arisaig of the shares of the Company.
4. Arisaig Mauritius was the investment manager of Arisaig. This represent an interest in and the shares arising by virtue of Arisaig Mauritius acting as discretionary investment manager of Arisaig pursuant to the SFO.
5. Mr. Cooper was deemed interested through his indirect 33.33% beneficial interest in Arisaig Mauritius.

## B. Short Positions

Name of substantial shareholder	Number of shares in which interested	Percentage of issued share capital
United Success Enterprises Limited	60,987,248 (note 6)	8.82
A-ONE INVESTMENTS LIMITED	32,512,752 (note 7)	4.70

*Notes:*

6. United Success, as one of the parties acting in concert in the Placing and Top Up was deemed to have a short position of 60,987,248 shares, representing the obligation to deliver these shares of the Company pursuant to the Placing and Top Up.
7. A-ONE, as one of the parties acting in concert in the Placing and Top Up, was deemed to have a short position of 32,512,752 shares, representing the obligation to deliver these shares of the Company pursuant to the Placing and Top Up.

Save as disclosed above, the Company has not been notified of any other person (other than directors of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 31 March, 2004.

### **PRACTICE NOTE 19 OF THE LISTING RULES**

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 14 October, 2003 relating to a 3.5-year term loan facility of HK\$380 million (the "Facility") made available to the Company (the "Facility Agreement").

The Facility Agreement contains certain events of default including:

- (a) if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and
- (b) if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (direct or indirect) more than 35% of the voting share capital of the Company; or no longer control the Board of the Company.

Upon the occurrence of an event of default under the Facility Agreement and so long as it is continuing, BNP Paribas Hong Kong Branch as agent may, inter alia, upon instructions from the majority lenders declare that all or part of the Facility, together with accrued interest, and all other amounts accrued under the finance documents as referred to under the Facility Agreement be immediately due and payable.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from the share option scheme as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements that 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 and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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

No contract of significance to which the Company nor 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.



## CONNECTED TRANSACTIONS

There was no connected transactions recorded in this year.

In respect of last year, on 6 June, 2002, A-ONE INVESTMENTS LIMITED ("A-ONE"), an investment holding company owned as to 50.45% by Mr. Chau Cham Wong, Patrick and 49.55% by Mr. Leung Yung, entered into an underwriting agreement (the "Underwriting Agreement") with the Company regarding the then proposed rights issue of the Company on 6 June, 2002. Since A-ONE is an associate of both Mr. Chau Cham Wong, Patrick and Mr. Leung Yung who are the substantial shareholders and executive directors of the Company, the Underwriting Agreement is a connected transaction for the Company which is exempted from shareholders' approval requirements pursuant to Rule 14.24(6)(b)(c) of the old Listing Rules. Save as disclosed above, there were no other transactions which needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March, 2004, the five largest ultimate customers to whom the goods were sold by the Group together accounted for not more than 50% of the Group's turnover for which the largest ultimate customer accounting for not more than 10%, and the five largest suppliers of the Group accounted for not more than 90% of the Group's purchases for which the largest supplier accounting for approximately 40%.

Save as disclosed above, none of the Directors, their associates nor any shareholder who, to the knowledge of the Directors own more than 5% of the Company's share capital, had an interest in any of the five largest suppliers or customers.

## PROPERTIES

Details of the properties of the Group as at 31 March, 2004 are set out on pages 114 to 115 of this report.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

## AUDIT COMMITTEE

Under the Listing Rules and with reference to "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants, the Company established an audit committee (the "Audit Committee").

The existing members of the Audit Committee include the four independent non-executive Directors of the Company. Amongst the committee's principal duties are to conduct regular meetings with the executive Directors in order to review the Company's financial reporting process and internal controls as well as to consider the scope and nature of the audit.

## CODE OF BEST PRACTICE

None of the Directors of the Company are aware of any information that would reasonably indicate that the Company is not, or was not for the year ended 31 March, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that independent non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation at the Annual General Meeting of the Company in accordance with the Company's Bye-laws.

## AUDITORS

The financial statements for the year ended 31 March, 2004 were audited by Messrs. Chu and Chu, Certified Public Accountants. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to reappoint them as auditors.

On behalf of the Board



**Chau Cham Wong, Patrick**  
*Chairman*

Hong Kong  
8 July, 2004