



Directors' Report



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Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries, associates and jointly controlled entities are set out in notes 43, 17 and 18 to the financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, our largest supplier accounted for 9% of the Group's total purchases. The five largest suppliers of the Group together accounted for 35% of the Group's total purchases for the year. During the year, the aggregate sales attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

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 of the Company owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 40 of the annual report.

An interim dividend of HK\$0.02 per share amounting to HK\$43,887,000 was paid to the shareholders during the year. Such interim dividend was satisfied by cash, with an alternative to the shareholders to elect to receive such dividend (or part thereof) by the allotment of new shares in the Company, credited as fully paid, by way of scrip dividend. As a result of shareholders' election, HK\$14,671,000 was paid in cash and 16,152,170 new shares were issued.

The directors now recommend the payment of a final dividend of HK\$0.055 per share to the shareholders on the register of members on 31 August 2004, amounting to HK\$122,015,000. Such final dividend is satisfied by way of scrip dividend by an allotment of new shares of the Company credited as fully paid and that shareholders may elect to receive cash wholly or partly in lieu of the scrip dividend.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 97 and 98 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately HK\$59,116,000 on the construction of a research and development complex and new factory buildings situated in the PRC. The Group also acquired a piece of land situated in the PRC for development with a net book value of HK\$36,989,000 as at 31 March 2004.

The Group acquired additional plant and machinery at a cost of approximately HK\$104,056,000 for expansion of production facilities. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

As at 31 March 2004, the investment properties were revalued at its open market value of HK\$127,725,000. The revaluation increase of HK\$2,770,000 arising on such revaluation has been credited directly to the investment property revaluation reserve. Details of these movements are set out in note 15 to the financial statements.

BORROWINGS

Details of secured bank borrowings of the Group are set out in note 28 to the financial statements.

No interest was capitalised by the Group during the year.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the financial statements.

SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Group during the year are set out in the consolidated statement of changes in equity. The movements in share premium and reserves of the Company are set out in note 32 to the financial statements.

Directors' Report

DIRECTORS

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

Executive directors:

Wong Wang Sang, Stephen – *Chairman*

Ng Kam Fai

Wong Pui Sing

Ding Kai

Kuo Teng Yeuk (resigned on 22 April 2003)

Independent non-executive directors:

So Hon Cheung, Stephen

Li Weibin

Liu Juh, James (resigned on 31 May 2003)

In accordance with Clauses 86 and 87 of the Company's Bye-laws, So Hon Cheung, Stephen retires and, being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company. All other directors continue in office.

All directors are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 April 2000. These service contracts will be valid unless terminated for cause or by either party giving at least one year's written notice. During the year, no termination of these service contracts were made.

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.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS**(a) Ordinary shares of HK\$0.1 each of the Company**

As at 31 March 2004, the interests of the directors and of their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prevailing during the financial year (the "Model Code"), were as follows:

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wong Wang Sang, Stephen	Beneficial owner	37,914,639	1.71%
	Held by trust (<i>Note a</i>)	825,799,048	37.28%
	Held by spouse (<i>Note b</i>)	2,983,629	0.13%
Ng Kam Fai	Beneficial owner	66,111,321	2.98%
Wong Pui Sing	Beneficial owner	23,297,821	1.05%
Ding Kai	Beneficial owner	9,505,000	0.43%
		965,611,458	43.58%

Note a: These shares are held by Target Success Group Limited in its capacity as trustee of the Skysource Unit Trust. Mr. Wong Wang Sang, Stephen is deemed to be interested in 825,799,048 ordinary shares of the Company as his spouse and his children are the discretionary beneficiaries of the Skysource Unit Trust.

Note b: Mr. Wong Wang Sang, Stephen is deemed to be interested in 2,983,629 shares of the Company being the interests held beneficially by his spouse.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND OPTIONS – *Continued*

(b) Share options

- (i) Particulars of the share option schemes of the Company are set out in note 31 to the financial statements.
- (ii) As at 31 March 2004, certain directors of the Company had personal interests in share options granted under the Company's Old Scheme as follows:

Name of director	Capacity	Number of options held	Number of shares underlying
Wong Wang Sang, Stephen	Beneficial owner	12,500,000	12,500,000
Ng Kam Fai	Beneficial owner	3,000,000	3,000,000
Wong Pui Sing	Beneficial owner	1,000,000	1,000,000
Ding Kai	Beneficial owner	1,000,000	1,000,000
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		17,500,000	17,500,000

DIRECTORS' INTERESTS IN SHARES AND OPTIONS – Continued**(b) Share options – Continued**

- (iii) The particulars of share option granted to the directors and the movement during the year were as follows:

Name of director	Consideration paid for the option granted HK\$	Date of grant	Exercise price HK\$	Exercisable period	Number of share options			
					Outstanding at 1 April 2003	Exercised during the year	Cancelled during the year	Outstanding at 31 March 2004
Wong Wang Sang, Stephen	1.00	25.11.2000	0.336	25.11.2003 to 27.3.2010	12,500,000	(12,500,000)	-	-
			0.336	25.11.2004 to 27.3.2010	12,500,000	-	-	12,500,000
Ng Kam Fai	1.00	25.11.2000	0.336	25.11.2002 to 27.3.2010	3,000,000	(3,000,000)	-	-
			0.336	25.11.2003 to 27.3.2010	3,000,000	(3,000,000)	-	-
			0.336	25.11.2004 to 27.3.2010	3,000,000	-	-	3,000,000
Wong Pui Sing	1.00	25.11.2000	0.336	25.11.2003 to 27.3.2010	1,000,000	(1,000,000)	-	-
			0.336	25.11.2004 to 27.3.2010	1,000,000	-	-	1,000,000
Ding Kai	1.00	25.11.2000	0.336	25.11.2003 to 27.3.2010	1,000,000	(1,000,000)	-	-
			0.336	25.11.2004 to 27.3.2010	1,000,000	-	-	1,000,000
Kuo Teng Yeuk (resigned on 22 April 2003)	1.00	25.11.2000	0.336	25.11.2003 to 27.3.2010	3,500,000	-	(3,500,000)	-
			0.336	25.11.2004 to 27.3.2010	3,500,000	-	(3,500,000)	-
Total					45,000,000	(20,500,000)	(7,000,000)	17,500,000

No share option was granted to the directors under the Old Scheme and the New Scheme during the year. The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised during the year ended 31 March 2004 was HK\$1.76.

- (iv) The particulars of share option granted to the employees (including directors) and the movement during the year are set out in note 31 to the financial statements.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND OPTIONS – *Continued*

(b) Share options – *Continued*

Save as disclosed above, none of the directors and chief executives, 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 the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 31 March 2004, and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the year ended 31 March 2004.

VALUATION OF THE SHARE OPTIONS GRANTED DURING THE YEAR

In assessing the value of the share options granted during the year ended 31 March 2004, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models set out in Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The variables of the Black-Scholes Model include:

- expected life of the options;
- risk-free interest rate; and
- expected volatility.

In assessing the value of the share options granted during the year, the variables of the Black-Scholes Model and its values are listed as follows:

Date of grant	Expected life	Risk-free rate	Expected volatility
9 June 2003	6.8 years	3.8%	8.54%
27 June 2003	6.8 years	3.8%	8.54%
16 October 2003	6.5 years	3.8%	29.79%
26 February 2004	6.1 years	3.8%	41.91%

- (a) The expected life is measured from the date of grant (the "Measurement Date") to 27 March 2010, the expiry date of the share options.
- (b) The risk-free rate applied to the Black-Scholes Model represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- (c) The expected volatility used in the calculation represents standard deviation of the daily closing share prices of the Company for the last twelve months from the Measurement Date.

VALUATION OF THE SHARE OPTIONS GRANTED DURING THE YEAR – *Continued*

Using the Black-Scholes Model in assessing the value of share options granted during the year, the options would have an aggregate value of approximately HK\$107,974,000 represented as follows:

Date of grant	Number of share options granted during the year	Estimated value per share option <i>HK\$</i>	Estimated value of options granted during the year <i>HK\$</i>
9 June 2003	2,000,000	0.16	320,000
27 June 2003	1,000,000	0.19	190,000
16 October 2003	153,200,000	0.62	94,984,000
26 February 2004	10,400,000	1.20	12,480,000
Total	166,600,000		107,974,000

For the purposes of the calculation of fair value of share options, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

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.

MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code regarding securities transaction by directors.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the following corporations have interests in the shares of the Company, other than the interests disclosed above in respect of certain directors of the Company, as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name	Capacity	Number of ordinary shares interested	Percentage of total issued shares
Target Success Group Limited	Trustee (<i>Note a</i>)	825,799,048	37.28%
HSBC International Trustee Limited	Trustee (<i>Note a</i>)	825,799,048	37.28%
J.P. Morgan Chase & Co.	Investment manager (<i>Note b</i>)	199,244,000	8.99%
	Custodian corporate agent (<i>Note b</i>)	58,707,180	2.65%
Value Partners Limited	Investment manager	128,675,794	5.81%

Note a: They held the shares of the Company in the respective capacities as trustee (in the case of Target Success Group Limited) of the Skysource Unit Trust (all of the units in which are owned by Skysource Trust) and (in the case of HSBC International Trustee Limited) of the Skysource Trust.

Note b: The interests of J.P. Morgan Chase & Co. in the Company were held by a number of its wholly-owned subsidiaries.

Save as disclosed above, there was no person, other than certain directors of the Company as disclosed above, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in note 42 to the financial statements:

- (i) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules; and
- (ii) no contracts of significance subsisted at any time during the year 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.

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has complied with the public float requirements of the Listing Rules for the financial year ended 31 March 2004.

RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 37 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

As at 31 March 2004, the audit committee comprises two members, all of whom are independent non-executive directors. The principal duties of the audit committee include the review of the completeness, accuracy and fairness of the Company's financial reports and the effectiveness of the Company's internal control system. During the year, five meetings of the audit committee have been held.

AUDITORS

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

On behalf of the Board



Wong Wang Sang, Stephen

Chairman

27 July 2004