

# REPORT OF THE DIRECTORS

The directors present their annual report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 6 on the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	27%	
Five largest customers in aggregate	65%	
The largest supplier		8%
Five largest suppliers in aggregate		30%

At no time during the year have 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 any interest in these major customers and suppliers.

## FINANCIAL STATEMENTS

The Group's results for the year ended 31 December 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 25 to 69.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2004.

## RESERVES

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

# REPORT OF THE DIRECTORS

## **FIXED ASSETS**

Details of movements in fixed assets of the Group during the year are set out in note 14 on the financial statements.

## **SUBSIDIARIES AND ASSOCIATES**

Particulars of the Company's subsidiaries and associates are set out in notes 16 and 17 on the financial statements.

## **SHARE CAPITAL**

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

## **SHARE OPTIONS, CONVERTIBLE NOTES AND WARRANTS**

Details of share options, convertible notes and warrants in issued and their subsequent conversion are set out in notes 26 and 28 respectively on the financial statements.

## **DIRECTORS**

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

### **Executive directors**

Mr. Leung Chung Shan  
Mr. Tam Lup Wai, Franky  
Mr. Chiu Wing Keung

### **Independent non-executive directors**

Mr. Chow Siu Ngor  
Mr. Ting Leung Huel, Stephen  
Mr. Lam Bing Kwan (appointed on 30 September 2004)

In accordance with clauses 86(2) of the Company's Bye-laws, Mr. Lam Bing Kwan will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with clauses 87(1) of the Company's Bye-laws, Mr. Chiu Wing Keung will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

# REPORT OF THE DIRECTORS

Independent non-executive directors are not appointed for a specific term because all of the directors, including non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting, in accordance with the Company's Bye-laws.

The Company confirmed that it has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 and the Company still considers the independent non-executive directors to be independent.

## DIRECTORS' SERVICE CONTRACT

Mr. Leung Chung Shan has individually entered into service contract with the Company for a term of 3 years commencing from 1 February 2000. The service contract of the executive director is subject to termination by either party giving not less than 6 months' written notice or otherwise shall continue thereafter from year to year.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2004, the interests and short positions of each directors and chief executives of the Company in shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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:

### Long position in issued shares and underlying shares

Name of director	Capacity	Nature of interests	Number of shares held	Number of underlying shares held	% of total issued shares
Leung Chung Shan ("Mr. Leung")	Interests of a controlled corporation	Corporate	883,832,000 (Note)	–	45.61%
Mr. Leung	Beneficial owner	Personal	58,212,000 (Note)	–	3.01%

# REPORT OF THE DIRECTORS

*Note:*

- (1) The 883,832,000 shares are held by Tees Corporation ("Tees"), a Company incorporated in the British Virgin Islands and is wholly-owned by Mr Leung. Together with Mr. Leung's personal interest in 58,212,000 shares, Mr. Leung is deemed to be interested in an aggregate of 942,044,000 shares.
- (2) The Company received a letter on 24 June 2004 from Mr. J R Lees informing the Company that he had been appointed as provisional liquidator of TKR Finance Limited ("TKR Fiance"). Thereafter, the Company was informed that out of 982,212,000 shares, representing 50.69% of the entire issued shares of the Company in aggregate held by Mr. Leung and Tees, 882,212,000 shares, representing 45.53% of the entire issued shares of the Company were pledged to TKR Finance for personal reasons.
- (3) On 18 April 2005, the provisional liquidator of TKR Finance informed Mr. Leung that 43,238,000 pledged shares, which was held by Tees, were sold. The Company was informed that, as at 22 April 2005, 838,974,000 shares in aggregate held by Mr. Leung and Tees, representing 43.29% of the entire issued shares of the Company were pledged.

Save as disclosed above, as at 31 December 2004, none of the directors nor their associates had any interests and short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## SHARE OPTION SCHEME

At 31 December 2004, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2004 is HK\$0.069) granted for HK\$1 consideration under the share option scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of the Company.

	Date of grant	Exercise price per share (Adjusted)	Options				
			Number of options				
			Outstanding at 1 January 2004	Cancelled during the year	Acquired on exercise of options during the year	Adjusted during the year	Outstanding at 31 December 2004
Directors	-	-	-	-	-	-	-
Employees	10 July 2000	HK\$0.392	36,180,000	5,400,000	-	-	30,780,000

# REPORT OF THE DIRECTORS

The Company has a share option scheme, which was adopted on 2 June 1997 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The purpose of the share option scheme is to encourage the officers and staff to participate in the ownership of the Company in order to provide additional incentives to them. The share option scheme shall be valid and effective for a period of ten years ending 1 June 2007. However, with effect from 1 September 2001, the Company no longer can grant any further options under the Scheme unless the Company changes the terms of the Scheme to comply with the requirements of Chapter 17 of the Listing Rules.

For options granted before 1 September 2001, the exercise price of options was determined by the board of directors and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices of the shares on the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable up to 1 June 2007. However, between 28 June 2001 and 23 August 2001, most of the holders of the options undertake with the Company that the exercise of the options shall be restricted in the following manner:

<b>Period</b>	<b>Number of Shares</b>
10 Jul 2001 to 31 Dec 2001 (both dates inclusive)	Not more than 10% of the outstanding options
1 Jan 2002 to 28 Feb 2002 (both dates inclusive)	Not more than 10% of the outstanding options
1 Mar 2002 to 30 Jun 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Jul 2002 to 30 Sept 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Oct 2002 to 31 Dec 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Jan 2003 to 31 Mar 2003 (both dates inclusive)	Not more than 15% of the outstanding options
1 Apr 2003 to 31 Jul 2003 (both dates inclusive)	Not more than 20% of the outstanding options

# REPORT OF THE DIRECTORS

In view that the Company no longer can issue options under the existing Scheme, the total number of shares available for issue under the share option scheme at 31 December 2004 will be 30,780,000 shares, which represents the outstanding options that have been granted but not yet lapsed or exercised at 31 December 2004, and it is 1.59% of the issued share capital of the Company as at the date of the annual report.

In respect of the maximum entitlement of each participant under the scheme, no limitation in relation to the number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period of the Company's ordinary shares in issue.

## DIRECTORS' EMOLUMENTS

Particulars of the Directors' emoluments disclosed pursuant to section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 9 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2004, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### (i) Long positions of substantial shareholders in the shares and underlying shares

Name of shareholder	Capacity	Number of shares held	Number of underlying shares held	% of total issued shares
Tees Corporation ("Tees")	Beneficial owner	883,832,000 <i>(Note 1 &amp; 3)</i>	–	45.61%
Mr. Leung Chung Shan ("Mr. Leung")	Interest of a controlled corporation /beneficial owner	942,044,000 <i>(Note 2 &amp; 3)</i>	–	48.62%
TKR Finance Limited ("TKR Finance")	Interest of a controlled corporation /beneficial owner	871,186,144 <i>(Note 3 &amp; 4)</i>	–	44.96%
Winway H.K. Investments Limited ("Winway")	Beneficial owner	153,000,000 <i>(Note 5)</i>	–	7.90%

# REPORT OF THE DIRECTORS

## Notes:

1. Tees is a company incorporated in the British Virgin Islands and is wholly-owned by Mr Leung.
2. In view of note 1 above, by virtue of Tees' interests in 883,832,000 shares and Mr. Leung's personal interests in 58,212,000 shares of the Company, Mr. Leung is deemed to be interested in an aggregate of 942,044,000 shares. For the avoidance of doubt, the same interests have been disclosed by Mr. Leung under the paragraph headed "directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above.
3. The Company received a letter on 24 June 2004 from Mr. J R Lees informing the Company that he had been appointed as provisional liquidator of TKR Finance. Thereafter, the Company was informed that out of 982,212,000 shares, representing 50.69% of the entire issued share of the Company in aggregate held by Mr. Leung and Tees, 882,212,000 shares, representing 45.53% of the entire shares of the Company were pledged to TKR Finance for personal reasons.

On 18 April 2005, the provisional liquidator of TKR Finance informed Mr. Leung that 43,238,000 pledged shares, which was held by Tees, were sold. The Company was informed that, as at 22 April 2005, 838,974,000 shares in aggregate held by Mr. Leung and Tees, representing 43.29% of the entire issued shares of the Company were pledged.

4. The Company received copies of the disclosure of interests forms filed pursuant to the SFO by the provisional liquidator of TKR Finance claiming its securities interests in shares of the Company. Based on the information on the disclosure of interests forms, TKR Finance held 909,690,144 shares of the Company as at 19 June 2004, held 888,870,144 shares of the Company as at 10 November 2004 and 871,186,144 shares of the Company as at 23 December 2004. The provisional liquidator of TKR Finance informed the Company that, as at 22 April 2005, TKR Finance has a security interest in 867,434,144 shares of the Company.
5. Winway is a wholly-owned subsidiary of Culturecom Investments Limited ("CIL"), which in turn is a wholly-owned subsidiary of Culturecom Holdings (BVI) Limited ("CHBVIL"), and CHBVIL is a wholly-owned subsidiary of Culturecom Holdings Limited ("CHL"). By virtue of the SFO, CIL, CHBVIL and CHL are deemed to be interested in the 153,000,000 shares held by Winway.

Save as disclosed above, as at 31 December 2004, the Company according to the records required to be kept by the Company under Section 336 of the SFO, there was no person who had any interest or short positions in the shares or underlying shares of the Company.

# REPORT OF THE DIRECTORS

## **DIRECTORS' INTERESTS IN CONTRACT**

Apart from the transactions set out in note 34 on the financial statements, in which Mr Leung Chung Shan through its shareholdings in Tees Corporation, the major substantial shareholder of the Group is interested, no contract of significance in relation to the Group's business 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.

## **DISTRIBUTABLE RESERVES**

At 31 December 2004, the Company had no reserves available for distribution to shareholders of the Company, as computed in accordance with the Companies Act 1981 of Bermuda. However, the Company's share premium account, with a balance of HK\$1,392,241,000 at 31 December 2004, may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **CONNECTED TRANSACTIONS**

Details of the connected transactions for the year are set out in note 34 on the financial statements.

## **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.

## **LOANS FROM FINANCIAL INSTITUTIONS**

Particulars of loans from other financial institutions of the Company and the Group as at 31 December 2004 are set out in note 23 on the financial statements.

## **FIVE YEAR 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 70 of the annual report.

# REPORT OF THE DIRECTORS

## PROPERTIES

Particulars of the major properties and property interests of the Group are shown in note 14 on the financial statements.

## PENSION SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5%-10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000 except for certain senior staff. Contributions to the scheme vest immediately. Contributions to the MPF Scheme are charged to the income statement as they become payable, in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the employer contributions being vested fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("Plans") organised by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

Details of the pension scheme contributions of the employees, net of forfeited contributions, which have been dealt with in the income statement of the Group for the year ended 31 December 2004, are set out in note 7 on the financial statements. At 31 December 2004, forfeited contributions of approximately HK\$1,700 (2003: HK\$26,000) were available to offset future employer contributions to the scheme.

## AUDIT COMMITTEE

Pursuant to the Listing Rules, an Audit Committee, comprising three independent non-executive directors, namely Messrs Chow Siu Ngor, Ting Leung Huel, Stephen and Lam Bing Kwan, was established on 28 December 1999 with written terms of reference. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Director at the date of the annual report, there was a sufficient public float of the Company.

# REPORT OF THE DIRECTORS

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to January 2005, except that independent non-executive directors are not appointed for a special term as recommended under Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, independent non-executive directors of the Company will retire by rotation, and their appointment will be reviewed when they are due for re-election. In the opinion of the Company, this meets the same objective as the Code of Best Practice.

## AUDITORS

KPMG had acted as auditors of the Company since 30 March 2001. KPMG retired and, did not offer themselves for reappointment on the annual general meeting of the Company held on 30 June 2004.

RSM Nelson Wheeler act as the new auditors of the Group to fill the vacancy left by the retirement of KPMG on 30 June 2004.

The financial statements of the Company for the year under review have been audited by RSM Nelson Wheeler, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By Order of the Board

**Chiu Wing Keung**

*Executive Director*

Hong Kong, 22 April 2005