

## Report of the Directors

The directors of the Company have pleasure in presenting their annual report together with the audited financial statements of the Company for the year ended 31 December 2003.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of its subsidiaries are the manufacture and distribution of gifts and novelties items. 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 15 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 99.4% of the Group's turnover, with the largest customer accounted for approximately 89.0%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 33.7% of total purchases of the Group, with the largest supplier accounted for approximately 9.5%.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in these customers or suppliers.

### 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 36.

An interim dividend of HK8 cents per share and a special dividend of HK3 cents per share, amounting to HK\$25,818,000 and HK\$13,882,000 respectively, were paid and approved to the shareholders during the year respectively.

The directors now recommend a payment of a final dividend of HK9 cents per share, amounting to HK\$52,625,000, to the shareholders on the register of members on 20 April 2004 and the retention of the remaining profit in the Company for the year, amounting to HK\$25,582,000.

### FIXED ASSETS

During the year, the Group spent approximately HK\$25,260,000 on plant and equipment and HK\$5,304,000 on properties to expand and upgrade its production capacity.

Details of these and other movements during the year in the fixed assets of the Group are set out in note 14 to the financial statements.



## Report of the Directors

### DIRECTORS

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

#### Executive directors:

Cheng Yung Pun (*Chairman*)

Yu Sui Chuen

Cheng Wing See, Nathalie

Lee Sai Keung, Daniel (resigned on 30 June 2003)

#### Independent non-executive directors:

Heng Kwo Seng

Mak Shiu Chung, Godfrey

### DIRECTORS' SERVICE CONTRACTS

In accordance with the Bye-law 99 of the Bye-laws of the Company, Mr. Yu Sui Chuen and Mr. Mak Shiu Chung, Godfrey retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

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

### DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

A tenancy agreement entered on 1 May 2001 was renewed on 22 May 2003 between Matrix Resources Enterprise Limited and Kwok Lung Industrial Company Limited ("Kwok Lung") in respect of premises in Hong Kong. The rental payable for the year in respect of these tenancy agreements amounted to HK\$160,000. Mr. Cheng Yung Pun ("Mr. Cheng") has beneficial interest in Kwok Lung.

During the year, interest on the 5% convertible loan stock amounting to HK\$1,091,000 was accrued and payable to Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands with its entire issued share capital wholly owned by Mr. Cheng.

Suncorp converted an amount of HK\$14,000,000 convertible loan stock into 140,000,000 ordinary shares of HK\$0.10 each in the Company in September 2003.

Save as disclosed above, no other 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.

None of the directors have any interests in competing business to the Group.

At 31 December 2003, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (“SFO”) were as follows:

(a) Ordinary Shares of HK\$0.10 each of the Company

Name	Capacity	Number of Issued Ordinary Shares Held	Percentage of the Issued Share Capital of the Company
<i>Directors</i>			
Mr. Cheng	Held by controlled corporations (note 1)	318,494,800	68.83%
Yu Sui Chuen	Beneficial owner	604,000	0.13%
Cheng Wing See, Nathalie	Beneficial owner	700,000	0.15%

*Note 1: The shares are held by Suncorp.*

## Report of the Directors

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

#### Long Positions (Continued)

(b) Derivative

Name	Capacity	Number of Issued Ordinary Shares Held	Percentage of the Issued Share Capital of the Company
<i>Director</i>			
Mr. Cheng	Held by controlled corporations (note 2)	122,000,000	26.37%

Note 2: The convertible loan stock of the Company are held by Suncorp.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to 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 neither the directors nor the chief executive, nor any of 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.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2003, other than the interests disclosed above in respect of the directors of the Company, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having an interest of 5% or more in the shares, underlying shares and debentures of the Company and its associated corporations.



## Report of the Directors

### SHARE OPTION SCHEME (*Continued*)

Particulars of the Company's share option scheme are set out in note 32 to the financial statements.

No options were granted or exercised under the scheme during the year and there were no outstanding share options at 31 December 2003.

At 31 December 2003, the total number of shares available for issue under the Company's share option scheme was 32,272,000 shares which represented 6.97% of the issued share capital of the Company.

### CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the non-executive directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Bye-laws of the Company.

### AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The Audit Committee comprises two independent non-executive directors, namely Mr. Heng Kwo Seng and Mr. Mak Shiu Chung, Godfrey.

### SUBSEQUENT EVENT

In February 2004, Suncorp has converted the remaining of HK\$12,200,000 convertible loan stock into 122,000,000 shares of HK\$0.10 each in the Company.

### AUDITORS

The financial statements have been audited by Messrs. Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By Order of the Board  
**Cheng Yung Pun**  
*Chairman*

Hong Kong, 16 March 2004