

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st March 2004.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are shown in note 35 to the accounts.

Results and Appropriations

The results of the Group for the year ended 31st March 2004 are set out in the consolidated profit and loss account on page 39 of the accounts.

The Directors declared an interim dividend of 0.58 US cents (4.5 HK cents) per share, totalling US\$21,195,000, which was paid on 5th January 2004.

The Directors recommend the payment of a final dividend of 1.15 US cents (9 HK cents) per share, totalling US\$42,390,000, payable on 23rd July 2004.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the accounts.

Donations

During the year, the Group made charitable and other donations of US\$372,000 (2003: US\$224,000).

Fixed Assets

Details of the movements in properties, plant and equipment are shown in note 14 to the accounts.

Share Capital

Details of the movements in share capital are shown in note 27 to the accounts.

Directors

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

Wang Koo Yik Chun

Patrick Wang Shui Chung *JP*

Winnie Wang Wing Yee

Peter Stuart Allenby Edwards

Peter John Wrangham

Patrick Blackwell Paul

Richard Wang Li-Chung

Arkadi Kuhlmann

Oscar De Paula Bernardes Neto

Peter Wang Kin Chung

Ian Lorne Thompson Conn

(retired and resigned on 18th March 2004)

Michael John Enright

(appointed on 18th March 2004 for a period of two years)

In accordance with Bye-law 109(A) of the Company's Bye-Laws, Mr. Peter Wang Kin Chung, Mr. Peter Stuart Allenby Edwards and Mr. Patrick Blackwell Paul retire from office by rotation and, being eligible, offer themselves for re-election.

In accordance with Bye-law 100 of the Company's Bye-Laws, Mr. Michael John Enright retires from office and being eligible, offers himself for re-election.

The Company is controlled through the Board of Directors which comprises eleven Directors. At 31st March 2004, three of the Directors are executive and eight of the Directors are non-executive, of whom six are independent. Their details are set out in the Biographical Details of Directors and Senior Management section on pages 34 to 36.

The Directors meet regularly to discuss the strategy, management and financial performance of the Company. Four full Board meetings were held throughout the year. The average attendance rate of the Executive and Non-executive Directors is 75% and that of the Independent Non-executive Directors is 92%. The attendance of the Directors at full Board meetings is summarized below.

Attendance at Full Board Meetings for 2003/04

Directors	Meetings Attended / Held
Executive Directors	
Patrick Wang Shui Chung <i>JP</i>	4 / 4
Winnie Wang Wing Yee	4 / 4
Richard Wang Li-Chung	2 / 4
Non-Executive Directors	
Wang Koo Yik Chun	3 / 4
Peter Wang Kin Chung	2 / 4
Average attendance rate	75%
Independent Non-Executive Directors	
Peter Stuart Allenby Edwards	4 / 4
Peter John Wrangham	4 / 4
Patrick Blackwell Paul	4 / 4
Arkadi Kuhlmann (appointed on 5th June 2003)	3 / 4
Oscar De Paula Bernardes Neto (appointed on 5th June 2003)	4 / 4
Michael John Enright (appointed on 18th March 2004)	0 / 1
Ian Lorne Thompson Conn (retired and resigned on 18th March 2004)	3 / 3
Average attendance rate	92%

Directors' Service Contracts

None of the Directors of the Company had a service contract with the Company or any of its subsidiaries during the year.

Disclosure of Interests

A DIRECTORS

As at 31st March 2004, the interests of each director and chief executive of the Company in the shares of the Company (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 were as follows:

Name	Shares of the Company of HK\$0.0125 each	
	Personal Interests	Other Interests
Wang Koo Yik Chun	–	2,182,600,640 (<i>Notes a & b</i>)
Peter Stuart Allenby Edwards	–	100,000 (<i>Note c</i>)
Peter John Wrangham	160,000	–

NOTES

- a. These shares are held, directly or indirectly, by the trustees of various trusts associated with the Wang family.*
- b. Duplications of shareholdings occur among and between the parties shown below under the Substantial Shareholders.*
- c. These shares are held under a trust of which Peter Stuart Allenby Edwards is one of the beneficiaries.*

Save as disclosed herein, as at 31st March 2004, the register maintained by the Company pursuant to section 352 of the SFO recorded no other interests or short positions of the Directors in any shares of the Company (within the meaning of Part XV of the SFO).

B SUBSTANTIAL SHAREHOLDERS

As at 31st March 2004, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued share capital:

Name of shareholder	Capacity	Number of shares held	Approximate % of shareholding
Ms. Wang Koo Yik Chun	Beneficiary of family trusts	2,134,600,640 <i>(Notes a & b)</i>	58.10
HSBC International Trustee Limited	Trustee	947,282,000 <i>(Notes a & c)</i>	25.78
Ansbacher (Bahamas) Limited	Trustee	887,040,000 <i>(Note a)</i>	24.14
Bermuda Trust (Guernsey) Limited	Trustee	358,972,480 <i>(Note a)</i>	9.77
Capital Group Companies, Inc.	Investment manager	290,663,092	7.91
Ceress International Investment Corporation	Trustee	223,014,080 <i>(Note d)</i>	6.07
Merriland Overseas Limited	Trustee	211,943,040 <i>(Note e)</i>	5.76

NOTES

- a. *The shares in which Ansbacher (Bahamas) Limited and Bermuda Trust (Guernsey) Limited were interested and 936,588,160 of the shares in which HSBC International Trustee Limited was interested were held, directly or indirectly, by them as the trustees of various trusts associated with the Wang family and are included in the shares in which Ms. Wang Koo Yik Chun was interested as referred to above under Directors' interests in Section A of Disclosure of Interests.*
- b. *The shares in which Ms. Wang Koo Yik Chun was interested as referred to above formed part of the shares referred to in Note a.*
- c. *941,500 of the shares in which HSBC International Trustee Limited was interested were held through HSBC Trustee (Hong Kong) Limited.*
- d. *The interests of Ceress International Investment Corporation in the Company were duplicated by the interests in the Company held by Bermuda Trust (Guernsey) Limited.*

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- e. The interests of Merriland Overseas Limited in the Company were duplicated by the interests in the Company held by HSBC International Trustee Limited.*

Save as disclosed herein, as at 31st March 2004, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in the shares of the Company.

Share Scheme

A SHARE OPTION SCHEME

The Company has on 29th July 2002 adopted a new share option scheme (herein referred to as “the Scheme”).

The major terms of the Scheme, in conjunction with the requirements of chapter 17 of the Rules Governing the Listing of Securities (“the Listing Rules”) on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”), are as follows:

(a) Purpose

The purpose of the Scheme is to provide incentive or rewards to Participants.

(b) Participants

The participants of the Scheme are

- (i) any director (including a non-executive director and an independent non-executive director), employee or consultant of the Group or a company in which the Group holds an equity interest or a subsidiary of such company (“Affiliate”); or
- (ii) any discretionary trust whose discretionary objects include any director, employee or consultant of the Group or an Affiliate; or
- (iii) a company beneficially owned by any director, employee or consultant of the Group or an Affiliate.

(c) Maximum number of shares

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company shall not exceed 2 per cent. of the share capital of the Company in issue from time to time.

The maximum number of shares (issued and to be issued) in respect of which options may be granted under the Scheme to any one grantee in any 12-month period shall not exceed 0.1 per cent. of the share capital of the Company in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained with such grantee and his associates abstaining from voting in accordance with the Listing Rules and a circular is issued.

(d) Time of acceptance and exercise of an Option

There is no specific requirement under the Scheme that an Option must be held for any minimum period before it can be exercised, but the terms of the Scheme provides that the Board has the discretion to impose a minimum period at the time of grant of any particular option. The date of grant of any particular Option is the date when the duplicate offer document constituting acceptance of the Option duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration is received by the Company, such date must be on or before the 28th day after the Option is offered to the relevant grantee. The period during which an Option may be exercised will be determined by the Board at its absolute discretion, save that no Option may be exercised more than 10 years after it has been granted.

(e) Subscription price for shares

The subscription price for shares shall be a price determined by the Directors, but shall not be less than the higher of

- (i) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; and
- (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant.

(f) Period of the Scheme

The Scheme will remain in force for a period of 10 years from the date of adoption of such Scheme.

Details of the new share options granted under the Scheme as at 31st March 2004 are as follows:–

Type of Grantees	Options held at 01/04/2003	Options granted during the year	Options held at 31/03/2004	Subscription price per share (HK\$)	Date of grant	Exercisable from	Exercisable until	Note
Employees	100,000	–	100,000	7.90	17/09/2002	01/08/2004	16/09/2012	(i)
	100,000	–	100,000	7.90	17/09/2002	01/08/2005	16/09/2012	(i)
	750,000	–	750,000	8.02	17/09/2002	01/08/2004	16/09/2012	(i)
	750,000	–	750,000	8.02	17/09/2002	01/08/2005	16/09/2012	(i)
	–	150,000	150,000	9.40	10/07/2003	01/07/2005	09/07/2013	(ii)
	–	150,000	150,000	9.40	10/07/2003	01/07/2006	09/07/2013	(ii)
	–	837,500	837,500	9.65	31/07/2003	01/07/2005	30/07/2013	(iii)
	–	837,500	837,500	9.65	31/07/2003	01/07/2006	30/07/2013	(iii)
	–	100,000	100,000	10.70	01/08/2003	01/08/2005	31/07/2013	(iv)
	–	100,000	100,000	10.70	01/08/2003	01/08/2006	31/07/2013	(iv)
	–	100,000	100,000	11.95	06/10/2003	01/10/2005	30/09/2013	(v)
	–	100,000	100,000	11.95	06/10/2003	01/10/2006	30/09/2013	(v)
		1,700,000	2,375,000	4,075,000				

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NOTE

The closing market price per share immediately before the date on which the share options were granted were (i) HK\$8.10, (ii) HK\$10.85, (iii) HK\$10.80, (iv) HK\$10.60 and (v) HK\$11.65.

Due to the current volatility of the share markets, the Directors consider it inappropriate to value the options which were granted under the Scheme.

B LONG-TERM INCENTIVE SHARE SCHEME

Under the terms of the Long-Term Incentive Share Scheme (“Incentive Share Scheme”) which was approved by the shareholders on 26th July 1999, the Directors may at their discretion invite full time employees of the Company and its subsidiaries, including Directors, to participate in the Incentive Share Scheme, and grant shares to such eligible employees.

Details of the shares vested in the eligible employees under the Incentive Share Scheme as at 31st March 2004 are as follows:

Year of grant of shares	Number of shares purchased	Purchase price (HK\$)	Shares		Shares will	
			awarded		be awarded	
			<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
2002	288,900	9.00	96,300	96,300	96,300	–
2003	154,917	9.50	–	51,639	51,639	51,639
	443,817		96,300	147,939	147,939	51,639

Apart from the Scheme and the Incentive Share Scheme mentioned above, there were no other arrangements to which the Company or its subsidiaries was a party 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.

Pre-emptive Rights

No pre-emptive rights exist under Bermudan law in relation to issues of new shares by the Company.

Major Suppliers and Customers

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Audit Committee

The members of Audit Committee are appointed from the Independent Non-executive Directors, with the Chairman having appropriate professional qualifications and experience in financial matters. The members of the Audit Committee are Mr. Patrick Paul (Chairman) and Mr. Michael Enright, who was appointed as Member of the Committee on 18th March 2004 in place of Mr. Ian Conn who retired and resigned on the same date.

During the year, the Audit Committee met regularly with the Group's senior management and the external auditors to consider and review the Group's financial statements, the nature and scope of audit reviews, and the effectiveness of the system of internal control and compliance. The Committee reviewed the unaudited interim accounts and the audited annual accounts for 2004 before recommending them to the Board for approval.

During the year, two Audit Committee Meetings were held and the average attendance rate of the members is 100%.

Attendance at Audit Committee Meetings for 2003/04

Members	Meetings Attended / Held
Patrick Blackwell Paul	2 / 2
Ian Lorne Thompson Conn (retired and resigned on 18th March 2004)	2 / 2
Michael John Enright (appointed on 18th March 2004)	0 / 0

Code of Best Practice

Throughout the accounting period, the Company was in compliance with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules of the Stock Exchange except that one of the Independent Non-executive Directors of the Company was not appointed for a specific term but he is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-Laws.

Auditors

The accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Patrick Wang Shui Chung

Chairman & Chief Executive

Hong Kong, 7th June 2004