

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 23.

The details of dividends paid and declared during the year are set out in note 9 to the accounts.

The directors recommend the payment of a final dividend of HK 7 cents per ordinary share, totalling HK\$14,020,000.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 24 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 14 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2004, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$107,515,000.



Report of the Directors

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE YEAR FINANCIAL 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 65.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year under review, the Company did not redeem any of its shares, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares.

BANK LOANS AND OVERDRAFTS

The Group's bank loans, including trust receipt loans and overdrafts as at 31st December 2004 are repayable over the following periods:

	HK\$'000
Within one year	111,556
In the second year	—
In the third to fifth year	—
	<u>111,556</u>



Report of the Directors

SHARE OPTIONS

Pursuant to the written resolutions passed by the then shareholders of the Company on 17th June 2003, the Company had adopted a share option scheme (the "Scheme") for the principal purpose of providing incentives and rewards to eligible participants who contribute to the growth and success of the Group. Under the Scheme, the directors of the Company may, at their absolute discretion, invite (i) any employees (whether full time or part time) of any member of the Group or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director; (ii) any non-executive director (including independent non-executive director) of any member of the Group or any Invested Entity; (iii) any consultant, adviser or agent engaged by any member of the Group or any Invested Entity, who, under the terms of relevant engagement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company; and (iv) any vendor, supplier of goods or services or customer of or to any member of the Group or Invested Entity who, under the terms of relevant agreement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company. The Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10th July 2003 (the "Listing Date") and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption on 17th June 2003. There is no change to the terms of the Scheme since adoption.

The total number of shares of the Company issuable upon exercise of all options granted and may be granted under the Scheme and any other share option scheme of the Group is 20,000,000, representing 10% of the issued shares of the Company as at the date of this annual report, and such limit is subject to renewal with shareholders' approval. The maximum number of shares issuable upon exercise of the options granted to each eligible participant under the Scheme and any other share option scheme of the Group in any twelve-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, shall require the approval of independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue for the time being and with an aggregate value (based on the closing price of the Company's shares as at the date of the grant) in excess of HK\$5 million, within any twelve-month period, are subject to shareholders' approval in advance in a general meeting.

Report of the Directors

SHARE OPTIONS (Continued)

As an overall limit, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company shall not, in aggregate, exceed 30% of the Company's shares in issue from time to time.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the proposed grantee. The exercise period of the share options granted is determined by the directors, which shall not end on a date more than 10 years from the date on which the share option is granted or deemed to be granted in accordance with the Scheme. Unless otherwise determined by the directors, the Scheme does not require a minimum period for which the share options must be held or a performance target which must be achieved before the share options can be exercised.

The exercise price of the share options is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Details of the share options outstanding as at 31st December 2004 which have been granted under the Scheme are as follows:

Eligible Participants	Date of grant	Exercise Price HK\$	Number of shares issuable under share options			At end of year	Company's share price	
			At beginning of year	Granted/ (lapsed) during the year	Exercised during the year		At date of grant HK\$	At date of exercise HK\$
Director								
Mr CHAN Ching Huen, Stanley	19th December 03	0.87	200,000	–	–	200,000	0.87	–
Employees (excluding directors)	19th December 03	0.87	4,212,000	(68,000)	(284,000)	3,860,000	0.87	1.04
			4,412,000	(68,000)	(284,000)	4,060,000		

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SHARE OPTIONS (Continued)

The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average closing price of the shares immediately before the dates on which share options were exercised. The exercise period of the above share options is from 19th December 2004 to 18th December 2005 (both dates inclusive).

Summary of details of the Company's share option schemes are also set out in note 23 to the accounts.

The directors consider it is inappropriate to disclose the value of share options granted under the Scheme. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. Moreover, the terms of the Scheme stipulate that the options granted should not be assigned, and no holder of the share options shall in any way sell, transfer, charge, mortgage or create any interest in favour of any third party over or in relation to any share option. The directors believe that any calculation of the value of share options as at the date of this report based on a number of speculative assumptions would not be meaningful.

DIRECTORS

The directors during the year were:

Executive directors

Mr LEE Sou Leung, Joseph (*Chairman*)

Ms TAN, Lisa Marie (*Deputy Chairman*)

Mr CHAN Ching Huen, Stanley

Independent non-executive directors

Mr PIKE, Mark Terence

Dr LUI Sun Wing

Mr NIMMO, Walter Gilbert Mearns

(Appointed on 30th September 2004)

Report of the Directors

DIRECTORS (Continued)

In accordance with Article 87(1) of the Company's Articles of Association, one third of the directors (or if the number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation at each annual general meeting provided that no director holding office as chairman shall be subject to retirement by rotation, or be taken into account in determining the number of directors to retire.

Mr PIKE, Mark Terence and Dr LUI Sun Wing are independent non-executive directors and were appointed for one-year term expiring on 6th May 2005. Mr NIMMO, Walter Gilbert Mearns is an independent non-executive director and was appointed for a one-year term expiring on 29th September 2005.

Mr CHAN Ching Huen, Stanley and Mr NIMMO, Walter Gilbert Mearns are subject to re-election at the forthcoming annual general meeting.

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 the Listing Date, which may be terminated by each party thereto giving to the other party three months' prior notice in writing, or three months' basic salary in lieu of notice, which notice period shall not expire at any time during the first year.

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

DIRECTORS' INTERESTS IN CONTRACTS

A director, Mr LEE Sou Leung, Joseph, has entered into lease agreements for the lease of office premises to two of the subsidiaries of the Group for the period from 1st January 2004 to 31st October 2004 amounted to HK\$120,000 and to one of the subsidiaries of the Group for the period from 1st November 2004 to 31st December 2004 amounted to HK\$24,000. The directors are of the opinion that the transactions have been entered into in the ordinary and usual course of business of the Group, the terms are negotiated on an arm's length basis and on normal commercial terms, and are fair and reasonable in the interests of the shareholders of the Company as a whole.

Saved as disclosed herein, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company 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.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 8.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st December 2004, 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 and their associates (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company, were as follows:

		Number of ordinary shares of HK\$0.10 each held			Total	Percentage
Director		Personal interests	Family interests	Other interests		
Mr LEE Sou Leung, Joseph ("Mr Lee")	Long position	Nil	528,000 shares (Note (b))	133,700,000 shares (Note (a))	134,228,000 shares	67.02%
	Short position	Nil	Nil	Nil	Nil	—
Ms TAN, Lisa Marie ("Ms Tan")	Long position	528,000 shares	Nil	133,700,000 shares (Note (a))	134,228,000 shares	67.02%
	Short position	Nil	Nil	Nil	Nil	—
Mr NIMMO, Walter Gilbert Mearns ("Mr Nimmo")	Long position	Nil	148,000 shares (Note (c))	Nil	148,000 shares	0.07%
	Short position	Nil	Nil	Nil	Nil	—

(a) The 133,700,000 shares are held by Peak Power Technology Limited in its capacity as the trustee of The Lee Family Unit Trust holding the same for the benefit of holders of units issued by The Lee Family Unit Trust. Of the entire 100,000 units in issue, 99,999 units are held by HSBC International Trustee Limited in the capacity of the trustee of The LMT Trust and the remaining 1 unit is held by Ms Loretta Tong Yuk Yin (an aunt of Ms Tan). HSBC International Trustee Limited is the trustee of the LMT Trust whose discretionary objects are Ms Tan and Mr Lee's family members. The aforesaid shares that Mr Lee and Ms Tan are deemed to be interested refer to the same parcel of shares.

(b) Mr Lee is the husband of Ms Tan. The personal interests of Ms Tan above are also disclosed as the family interests of Mr Lee.

(c) The 148,000 shares are beneficially owned by Mr Nimmo's spouse.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

Other than as disclosed above, at no time during the year was the Company, its subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

At 31st December 2004, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

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.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentage of sales for the year attributable to the Group's five largest customers is less than 30% of total sales for the year and therefore no disclosure with regard to major customers are made. The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

Purchases

– the largest supplier	24%
– five largest suppliers combined	68%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

Report of the Directors

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the Directors of the Company is aware of any information that would reasonably indicate that the Group is not, or was not, at anytime during the year in compliance with the Code of Best Practice as set out in Appendix 14 (which was then in force for the year under review) to the Listing Rules of the Stock Exchange.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES ("MODEL CODE")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year under review and they all confirmed that they have fully complied with the required standard set out in the Model Code.

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 Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Mr PIKE, Mark Terence, Dr LUI, Sun Wing and Mr NIMMO, Walter Gilbert Mearns. Two meetings were held during the financial year under review.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the percentage of the ordinary shares in public hands exceed 25% as at 18th April 2005, the latest practicable date to ascertain such information prior to the issue of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to rule 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors. The Company confirms that it has received from each of the independent non-executive directors a confirmation of his independence pursuant to rule 3.13 and the Company still considers all the existing independent non-executive directors to be independent.

Report of the Directors

PENSION SCHEME ARRANGEMENTS

The Group operated a defined contribution retirement scheme, an Occupational Retirement Scheme, for qualified employees, including executive directors of the Company, in Hong Kong prior to 1st December 2000. The cost charged to the profit and loss account represents contributions payable or paid to the funds by the Group at the rate of 5% of the salary with a ceiling of HK\$1,000 per month for general staff and there is no ceiling for managerial staff. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

With effect from 1st December 2000, a Mandatory Provident Fund scheme (the "MPF scheme") has been set up for employees in Hong Kong, in accordance with the Mandatory Provident Fund Scheme Ordinance. Commencing on 1st December 2000, the existing employees in Hong Kong may elect to join the MPF scheme, and all new employees in Hong Kong are required to join the MPF scheme. Under the rules of the MPF scheme, the employer and its employees in Hong Kong are each required to contribute 5% of their gross earnings with a ceiling of HK\$1,000 per month to the MPF scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years. The MPF contributions charged to the profit and loss account represent the contributions payable to the funds by the Group.

Employees in the Company's subsidiaries in the People's Republic of China (the "PRC") are required to participate in defined contribution retirement schemes operated by the local municipal governments. The retirement schemes for employees of the Company's overseas subsidiaries follow the local statutory requirements of the respective countries. Contributions are made to the schemes based on a certain percentage of the applicable employee payroll.

Details of the pension scheme contributions of the Group for the year ended 31st December 2004 are set out in note 13 to the accounts.

SUBSEQUENT EVENT

On 4th February 2005, the Group acquired from independent third parties a leasehold property in the PRC at a consideration of approximately HK\$8,841,000.

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AUDITORS

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

On behalf of the Board

LEE Sou Leung, Joseph

Chairman

Hong Kong, 18th April 2005

