

Report of the Directors

The directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 17 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

FINANCIAL RESULTS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 69.

FINANCIAL SUMMARY

The Company was incorporated in Bermuda on 31 March 1998 and became the ultimate holding company of the companies now comprising the Group as a result of the reorganisation which became effective on 29 April 1998. Accordingly, the published balance sheets of the Group are prepared as at 31 December 1998, 1999, 2000 and 2001, respectively.

To ensure consistency of presentation and for comparison purposes, the pro forma combined results for the two years ended 31 December 1998 are presented below on the basis that the current Group structure had been in existence throughout the said period.

RESULTS

	2001 HK\$'000	Consolidated 2000 HK\$'000	1999 HK\$'000	Pro forma combined results Year ended 31 December	
				1998 HK\$'000	1997 HK\$'000
TURNOVER	515,868	420,648	353,480	181,405	247,689
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(59,972)	24,192	15,774	4,046	31,408
Finance costs	(352)	(1,259)	(823)	(463)	–
Share of losses of:					
Jointly-controlled entity	(2,344)	(441)	–	–	–
Associate	(26)	(32)	–	–	–
PROFIT/(LOSS) BEFORE TAX	(62,694)	22,460	14,951	3,583	31,408
Tax	(953)	(1,946)	(783)	(615)	(1,537)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(63,647)	20,514	14,168	2,968	29,871
Minority interests	(312)	(747)	(366)	(54)	(315)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(63,959)	19,767	13,802	2,914	29,556

ASSETS AND LIABILITIES

	Consolidated			
	Year ended 31 December			
	2001	2000	1999	1998
	HK\$'000	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)*</i>		
Total assets	400,943	501,219	212,161	147,908
Total liabilities	(54,240)	(100,310)	(61,977)	(62,141)
Minority interests	(1,352)	(2,330)	(1,583)	(1,217)
	345,351	398,579	148,601	84,550

* Details of the restatement of certain comparative amounts are set out in note 12 to the financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 14 to the financial statements. Further details of the Group's investment properties are set out on page 70.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws and there are no restrictions against such rights under the laws of Bermuda, being the jurisdiction in which the Company is incorporated.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the authorised and issued shares and share options of the Company during the year, together with the reasons therefor, are set out in note 30 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

SHARE PREMIUM ACCOUNT AND RESERVES

Details of movements in the share premium account and reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had no available distributable reserve, calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

In addition, the Company's share premium may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

	Year ended 31 December 2001
Customers	
Percentage of turnover attributable to the Group's five largest customers	29.0%
Percentage of turnover attributable to the Group's largest customer	10.6%
Suppliers	
Percentage of purchases attributable to the Group's five largest suppliers	85.4%
Percentage of purchases attributable to the Group's largest supplier	57.1%

None of the directors, their respective associates or any shareholders of the Company, which to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any interest in the customers and suppliers mentioned above.

DIRECTORS

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

Executive directors:

Ng Cheung Shing

Leung King San, Sunny

Ma Mok Hoi

So Cheung Ping, Andrew (appointed on 3 September 2001)

Non-executive directors:

Lai Kai Ming, Dominic

Ha Shu Tong *

Lee Kwok On, Matthew, Ph.D *

* *Independent non-executive director*

In accordance with bye-laws 86(2) and 87 of the Company's bye-laws, Mr. So Cheung Ping, Andrew and Dr. Lee Kwok On, Matthew will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

The independent non-executive directors have not been appointed for a specific term, but are subject to retirement by rotation pursuant to the Company's bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors entered into a service contract with the Company since 1 April 1998, except for Mr. So Cheung Ping, Andrew who was appointed as a director on 3 September 2001 and entered into a service contract similar to other executive directors with the Company on that day. These service contracts will continue until terminated by either party by serving to the other party a written notice of not less than three months prior to the effective date of termination. As at the date of the report, no termination notice by either party had been received.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as detailed in note 36 to the financial statements, no director had a significant beneficial interest in any significant contract, whether directly or indirectly, to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

(A) Interests in Shares

(i) The Company

Name of director	Nature of interest and number of shares	
	Personal interests	Corporate interests
Ng Cheung Shing	1,232,000	110,000,000 (Note 1)
Leung King San, Sunny	622,000	–
Ma Mok Hoi	9,000	–

(ii) Associated corporations

Name of director	Name of associated corporation	Nature of interest and number of shares		
		Personal interests	Corporate interests	Class of shares
Ng Cheung Shing	Computer And Technologies International Limited	1,750,000	3,250,000 (Note 2)	Non-voting deferred
Ma Mok Hoi	Maxfair Technology Holdings Limited	25 (Note 3)	–	Ordinary

Note 1: 110,000,000 shares were held by Chao Lien Technologies Limited ("Chao Lien"). Ng Cheung Shing is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of C.S. (BVI) Limited which, in turn, is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Chao Lien. Accordingly, Ng Cheung Shing was deemed, under the SDI Ordinance, to be interested in all shares held by Chao Lien.

DIRECTORS' INTERESTS IN SHARES (continued)

(A) Interests in Shares (continued)

(ii) *Associated corporations* (continued)

Note 2: 3,250,000 non-voting deferred shares were held by Chao Lien.

Note 3: Ma Mok Hoi originally held 625,000 shares in Maxfair Technology Limited ("Maxfair") and when Maxfair Technology Holdings Limited ("Maxholdings") was formed during the year, Ma Mok Hoi transferred his interests in Maxfair to the Maxholdings at par value and subscribed for 25 new shares in the Maxholdings in effect maintaining the same minority interests in the Group's distribution business.

(B) Interests in Share Options

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme are the Group's employees including the Company's executive directors. The Scheme became effective on 29 April 1998 and, unless otherwise cancelled or amended, remains in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is up to 10% of the shares of the Company in issue at any time without taking into account any shares issued and allotted pursuant to exercise of option granted under the Scheme. At 31 December 2001, the number of shares issuable under the Scheme was 26,515,629 which represented approximately 9.8% of the Company's shares in issue as at that date. The maximum number of share options granted to any eligible individual participant in the Scheme shall not exceed 25% of the issuable shares under the Scheme.

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\$10 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than six years from the commencing date of the share options or the expiry date of the Scheme whichever is earlier.

SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the directors, but being in no event less than the higher of 80% of average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of grant of the option and the nominal value of the shares.

The Company has not adopted share option scheme in accordance with the amendments made to Chapter 17 of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") on Share Schemes that took effect on 1 September 2001. Accordingly, the Group has not granted any option since the new requirements became effective. The Company plans to adopt new scheme in the forthcoming annual general meeting.

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2001	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2001				At grant date of options HK\$	At exercise date of options HK\$
Directors										
Ng Cheung Shing	13,500	-	(13,500)	-	-	30.11.1999	10.12.1999 to 29.11.2001	1.750	5.200	3.625
	800,000	-	-	-	800,000	03.12.1999	03.12.2000 to 02.11.2004	1.800	4.500	N/A
	813,500	-	(13,500)	-	800,000					
Leung King San, Sunny	10,000	-	(10,000)	-	-	30.11.1999	10.12.1999 to 29.11.2001	1.750	5.200	3.625
	188,000	-	-	-	188,000	03.12.1999	03.12.2000 to 02.11.2004	1.800	4.500	N/A
	198,000	-	(10,000)	-	188,000					
Ma Mok Hoi	9,000	-	(9,000)	-	-	30.11.1999	10.12.1999 to 29.11.2001	1.750	5.200	3.625
	200,000	-	-	-	200,000	03.10.1998	26.10.1999 to 25.10.2003	0.281	0.370	N/A
	209,000	-	(9,000)	-	200,000					

SHARE OPTION SCHEME (continued)

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2001	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2001				At grant date of options HK\$	At exercise date of options HK\$
Other employees in aggregate										
	1,456,000	-	(420,000)	-	1,036,000	09.10.1998	26.10.1999 to 25.10.2003	0.298	0.390	2.350 to 3.500
	348,000	-	(108,000)	-	240,000	09.10.1998	26.10.1999 to 25.10.2003	0.316	0.390	1.800 to 3.425
	520,000	-	(234,000)	-	286,000	18.08.1999	30.08.2000 to 29.08.2004	0.635	0.810	1.800
	702,000	-	(32,000)	-	670,000	18.08.1999	30.08.2000 to 29.08.2004	0.675	0.810	3.500
	708,000	-	(144,000)	-	564,000	18.08.1999	30.08.2000 to 29.08.2002	0.715	0.810	0.880 to 3.325
	112,000	-	(16,000)	-	96,000	03.09.1999	17.09.2000 to 16.09.2004	0.753	0.930	3.325
	-	600,000	-	-	600,000	31.08.2001	06.09.2002 to 05.09.2006	1.563	1.880	N/A
	2,710,000	-	(1,294,000)	-	1,416,000	15.11.1999	10.12.1999 to 31.12.2002	1.750	2.250	3.275 to 3.500
	-	2,653,000	-	-	2,653,000	16.01.2001	23.01.2002 to 22.01.2006	2.672	3.500	N/A
	1,241,000	-	-	(1,241,000)	-	24.10.2000	N/A	4.040	5.350	N/A
	1,252,000	-	-	(1,252,000)	-	14.08.2000	N/A	4.140	5.250	N/A
	9,049,000	3,253,000	(2,248,000)	(2,493,000)	7,561,000					
Total	10,269,500	3,253,000	(2,280,500)	(2,493,000)	8,749,000					

Note: If the last day of any option period is not a business day in Hong Kong, the option period will end on the business day preceding that day.

Each of the grantees paid HK\$10 to the Company as consideration for options granted to them.

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange 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 exercise of the share options is the closing prices of the Stock Exchange for the earliest and latest exercised dates of options within the disclosure category.

SHARE OPTION SCHEME (continued)

Summary details of the Company's share option scheme are also set out in note 30 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their costs. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and the employees because the costs associated to derive the theoretical value outweighs the benefits of such information to the shareholders.

Save as disclosed above, as at 31 December 2001, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder of the Company	Number of shares	Percentage of issued share capital
Chao Lien Technologies Limited <i>(Note 1)</i>	110,000,000	40.7%
C.S. (BVI) Limited <i>(Note 1)</i>	110,000,000	40.7%
Puttney Investments Limited <i>(Note 2)</i>	29,148,938	10.8%
Hutchison International Limited <i>(Note 2)</i>	29,148,938	10.8%

Note 1: The interest was also disclosed as an interest of Ng Cheung Shing in the section "Directors' interests in shares" of this report.

Note 2: The two references to 29,148,938 shares relate to the same block of shares in the Company. Hutchison International Limited, as a wholly-owned subsidiary of Hutchison Whampoa Limited ("HWL"), holds the entire issued share capital of Puttney Investments Limited. Subsidiaries of Cheung Kong (Holdings) Limited ("CKH") are entitled to exercise or control the exercise of more than one-third of the voting power at the general meeting of HWL.

Li Ka-Shing Unity Holdings Limited (in which Li Ka-Shing owns its entire issued share capital) owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings (the "related companies"), holds more than one-third of the issued share capital of CKH.

SUBSTANTIAL SHAREHOLDERS (continued)

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1"). TDT1 as trustee of the Li Ka-Shing Unity Discretionary Trust, holds a majority of units in The Li Ka-Shing Unity Trust.

By virtue of the interest in TDT1 and TUT1 through Li Ka-Shing Unity Holdings Limited, the interest in the shares of CKH held by TUT1 as trustee of the Li Ka-Shing Unity Trust and its related companies, the interest of CKH in HWL and the interest of Hutchison International Limited in the shares of the Company as described above, Li Ka-Shing is taken to have an interest in the shares of the Company held by Puttney Investments Limited under the SDI Ordinance.

Save as disclosed above, as at 31 December 2001, no person, other than the directors of the Company whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTION

Details of the connected transaction for the year are set out in note 36 to the financial statements. The independent non-executive directors of the Company have reviewed the connected transaction set out in note 36, for which the Stock Exchange has granted a waiver from the relevant requirements of the Listing Rules, and confirmed that:

- (a) the transaction was entered into by the Group in the ordinary and usual course of its business;
- (b) the transaction was entered into on an arm's length basis, on normal commercial terms, and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) the transaction was carried out in accordance with the terms of the agreement governing such transaction.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group are set out in note 34 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted its financial policy so as to maintain a stable financial condition. As at 31 December 2001, the aggregate of the Group's bank deposits and cash balance amounted to HK\$210,263,000, 88% of which was Hong Kong dollars or US dollars.

The Group has banking facilities in Hong Kong dollars, US dollars and Renminbi. The banking facilities are secured by fixed charges over the Group's investment properties situated in Hong Kong and bank fixed deposits. As of the balance sheet date, none of them has been utilised, however due to certain outstanding interest-free "other loan" (details as note 29 to the financial statements) the gearing ratio has become 0.2% (2000: 2.3%) on the basis of total borrowings over total shareholders' equity.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2001, the Group employed around 333 employees (2000: 295 employees) in Hong Kong, Mainland China and elsewhere, and the geographic proportion is approximately 38%, 52% and 10%, respectively (2000: 47%, 53% and 0%). The increase in elsewhere represents the employees employed through business expansion in Taiwan and Singapore. The total employee costs (excluding directors' remuneration) is approximately HK\$72,785,000 (2000: HK\$60,385,000).

Employees' remuneration is in accordance with individual's responsibility and performance and maintains competitive with the prevailing market rates. Other fringe benefits such as medical insurance, pension funds, etc, are offered to most employees. Share options are granted at the directors' discretion and under the terms and conditions of employees share option schemes of the Company and certain subsidiaries that were approved and adopted on 29 April 1998 and 1 July 2000, respectively. During the year, 3,253,000 share options of the Company were granted to the employees and as at 31 December 2001, 7,561,000 of the Company's share options granted to the employees were not exercised.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Ng Cheung Shing

Chairman

Hong Kong

9 April 2002