

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended 31st March, 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries, jointly controlled entity and associate are set out in notes 15, 16 and 17, respectively, to the financial statements.

### CHANGE IN SUBSTANTIAL SHAREHOLDERS

During the year, the Company entered into subscription and placing agreements with Best Chance Holdings Limited ("Best Chance") and a placing agent to subscribe for 2,256,000,000 and 744,000,000 shares in the Company at HK\$0.05 per share, respectively.

Following the completion of the subscription ("Subscription") and placing ("Placement") of new shares in the Company, Best Chance held approximately 56% interest in the Company and accordingly, there was a change in the substantial shareholder of the Company, details of which are set out in the circular of the Company dated 22nd August, 2001.

### RESULTS

The results of the Group for the year ended 31st March, 2002 are set out in the consolidated income statement on page 20.

No dividend was paid during the year.

### SHARE CAPITAL AND WARRANTS

During the year, the Company carried out a capital reduction (the "Capital Reduction") whereby the nominal value of the issued and unissued share capital were reduced from HK\$0.10 to HK\$0.05 each, the authorised but unissued share capital of HK\$24,031,217 was cancelled and the authorised share capital was increased to HK\$150,000,000 by the creation of 1,980,624,340 ordinary shares at HK\$0.05 each. The authorised share capital was further increased to HK\$600,000,000 by the creation of 9,000,000,000 ordinary shares of HK\$0.05 each. The Company also issued 2,256,000,000, 744,000,000 and 13,000,000 new shares in the Company of HK\$0.05 each as a result of the Subscription, Placement and exercises of share options.

Details of these and other changes in the share capital and outstanding warrants of the Company during the year are set out in notes 22 and 23 to the financial statements, respectively.

### RESERVES

Details of changes in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

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### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

### INVESTMENT PROPERTY

Details of changes in investment property of the Group during the year are set out in note 13 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

### DIRECTORS

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

#### Executive directors:

Mr. Wang Jian Hua (Chairman)	(appointed on 31st October, 2001)
Mr. Ng Tang, David (Deputy Chairman)	(appointed on 31st October, 2001)
Mr. Bao Wen Bin	(appointed on 31st October, 2001)
Mr. Pak Chung	
Mr. Yeung Chak Sang	(resigned on 5th November, 2001)
Mr. Ting Leung Tak	(resigned on 19th June, 2001)

#### Non-executive director:

Ms. Sun Ching Wai	(redesignated from executive director to non-executive director on 7th November, 2001)
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#### Independent non-executive directors:

Ms. Chung Kwo Ling	
Mr. Heng Kwo Seng	(appointed on 19th December, 2001)
Mr. Robert Chan Yee Hoi	(resigned on 19th December, 2001)

In accordance with the clauses 86(2) and 87 of the Company's Bye-laws, Mr. Pak Chung, Mr. Ng Tang, David, Mr. Bao Wen Bin and Mr. Heng Kwo Seng retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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

### DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register kept by the Company under section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Name of director	Number of ordinary shares of HK\$0.05 in the Company				Total
	Personal interests	Family interests	Corporate interests	Interests in concert	
Wang Jian Hua (Note 1)	—	—	2,256,000,000	—	2,256,000,000
Ng Tang, David (Note 1)	—	—	(note 1)	—	2,256,000,000
Bao Wen Bin (Note 1)	—	—	(note 1)	—	2,256,000,000
Pak Chung (Notes 2 and 3)	11,982,000	50,000,000	305,018,760	61,100,000	428,100,760
Sun Ching Wai (Note 3)	61,100,000	—	—	367,000,760	428,100,760

*Notes:*

1. Mr. Wang Jian Hua, Mr. Ng Tang, David and Mr. Bao Wen Bin beneficially own 93.7%, 3.8% and 2.5%, respectively, of the issued share capital of Best Chance, which in turn owns 2,256,000,000 shares of HK\$0.05 each in the Company.
2. Mr. Pak Chung has corporate interest in the Company's shares through Fortune Garden Investments Limited ("Fortune Garden"), which is wholly and beneficially owned by him. In addition, 50,000,000 shares were held by Mr. Pak Chung's wife, Ms. Sun Li and Mr. Pak Chung is therefore deemed to have an interest in these shares.
3. Mr. Pak Chung and Ms. Sun Ching Wai are acting in concert.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, as at 31st March, 2002, none of the directors of the Company or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations, within the meaning of the SDI Ordinance to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the 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.

### SHARE OPTION SCHEME

Pursuant to the share option scheme adopted on 5th March, 1996 (the "1996 Scheme") and effective for a period of ten years after the date of adoption of the scheme, the Company granted options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company for the primary purpose of providing incentives to directors and eligible employees. Options granted must be taken up within 28 days from the date of grant. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant. The subscription price, subject to adjustment, shall not be less than 80% of the average of the closing prices of the shares of the Company on the five trading days immediately before the options were offered. Options granted are exercisable for a period of four and a half years commencing on the expiry of six months after the date on which the options are granted. The total number of shares in respect of which options may be granted and had already been granted under the 1996 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The total number of shares in respect of which options may be granted and had already been granted to any individual is not permitted to exceed 25% of the maximum aggregate number of shares in the capital of the Company in respect of which options may at that time be granted under the 1996 Scheme.

Pursuant to a special resolution passed at the special general meetings held on 18th March, 2002, a new share option scheme (the "2002 Scheme") was adopted by shareholders to grant options to the directors and employees to subscribe for shares of the Company for the primary purpose of providing incentives to directors and employees. No further options will be granted under the 1996 Scheme and the options which have been granted during the life of the 1996 Scheme shall continue to be exercisable.

The subscription price of the option shares granted under the 2002 Scheme shall be a price to be determined by the directors of the Company being not less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; (iii) the nominal value of a share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company (including the 1996 Scheme) shall not in aggregate exceed 30% of the shares in issue from time to time.

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The total number of shares issued and may be issued upon exercise of the options granted to any individual under the 2002 Scheme and any other share option schemes of the Company must not exceed 1% of the shares in issue.

The 2002 Scheme will remain in force for a period of ten years commencing from the date of adoption of the 2002 Scheme, after which no further options will be granted but the options which are granted during the life of the 2002 Scheme may continue to be exercisable in accordance with their terms of issue and the provisions of the 2002 Scheme shall in all other respects remain in full force and effect in respect thereof.

Options granted under the 2002 Scheme must be taken up within 21 days of the date of grant. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant.

No share options under the 2002 Scheme were granted to or exercised by any directors or employees of the Company or the Group during the year and no options under the 2002 Scheme were outstanding as at 31st March, 2002.

A summary of movements of share options under the 1996 Scheme during the year is as follows:

	Exercisable period	Exercise price HK\$	Number of share options				Outstanding at 31.3.2002
			Outstanding at 1.4.2001	Granted during the year	Exercised during the year	Surrendered/ lapsed during the year	
<b>Category 1: Directors</b>							
Pak Chung	17.5.2001 to 17.11.2005	0.144	2,000,000	—	—	—	2,000,000
Yeung Chak Sang	7.9.2000 to 7.3.2005	0.250	500,000	—	—	—	500,000
(Note i)	11.10.2000 to 11.4.2005	0.295	3,298,000	—	—	—	3,298,000
	17.5.2001 to 17.11.2005	0.144	450,000	—	—	—	450,000
Ting Leung Tak	7.9.2000 to 7.3.2005	0.250	300,000	—	—	—	300,000
(Note ii)	11.10.2000 to 11.4.2005	0.295	200,000	—	—	—	200,000
	17.5.2001 to 17.11.2005	0.144	350,000	—	—	—	350,000
Sun Ching Wai	17.5.2001 to 17.11.2005	0.144	1,000,000	—	—	—	1,000,000
			8,098,000	—	—	—	8,098,000

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Exercisable period	Exercise price HK\$	Number of share options				
		Outstanding at 1.4.2001	Granted during the year	Exercised during the year	Surrendered/ lapsed during the year	Outstanding at 31.3.2002
<b>Category 2: Employees</b>						
7.9.2000 to 7.3.2005	0.250	900,000	—	—	(200,000)	700,000
11.10.2000 to 11.4.2005	0.295	400,000	—	—	—	400,000
17.5.2001 to 17.11.2005	0.144	15,000,000	—	(13,000,000)	—	2,000,000
		16,300,000	—	(13,000,000)	(200,000)	3,100,000
		24,398,000	—	(13,000,000)	(200,000)	11,198,000

*Notes:*

- (i) Mr. Yeung Chak Sang resigned as an executive director of the Company on 5th November, 2001. As he remains as an employee of the Group, the options granted to him shall remain exercisable under the rules of the 1996 Scheme.
- (ii) Mr. Ting Leung Tak resigned as an executive director and employee of the Company and the Group on 19th June, 2001 and 31st January, 2002, respectively. The options granted to him under the 1996 Scheme will be lapsed in July 2002.

At 31st March, 2002, the number of shares in respect of which options could be exercisable under the 1996 Scheme was 11,198,000 representing approximately 0.3% of the shares of the Company in issue at the date. During the year, 8,000,000, 300,000 and 4,700,000 shares options, total at 13,000,000 shares option under the 1996 scheme were exercised and the closing prices of the Company's shares immediately before the dates of exercise were HK\$0.130, HK\$0.183 and HK\$0.110, respectively.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement 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 none of the directors or their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company or had exercised any such rights during the year.

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### SUBSTANTIAL SHAREHOLDERS

Other than the interest as disclosed above in respect of certain directors and their associates, the register required to be maintained under Section 16(1) of the SDI ordinance shows that the Company had not been notified of the existence of any interest representing 10% or more of the issued share capital of the Company as at 31st March, 2002.

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers were less than 30% of the total sales (2001: less than 30%). The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the total purchases (2001: less than 30%).

### PRE-EMPTIVE RIGHTS

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

### CODE OF BEST PRACTICE

Save as that the independent non-executive directors and non-executive director of the Company are not appointed for specific terms as they are subject to retirement by rotation at annual general meeting in accordance with the Company's Bye-laws, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

### POST BALANCE SHEET EVENT

Details of the significant post balance sheet events are set out in note 38 to the financial statements.

### AUDITORS

During the year, Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company to fill in the casual vacancy.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By order of the Board

**WANG JIAN HUA**

*CHAIRMAN*

26th July, 2002