

# Report of the Directors

The directors herein present their report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 16 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

## FINANCIAL RESULTS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 18 to 63.

## 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.

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

## RESULTS

|                           | Consolidated    |                        |             |          | Pro forma |
|---------------------------|-----------------|------------------------|-------------|----------|-----------|
|                           | 2002            | Year ended 31 December |             |          | combined  |
|                           | 2002            | 2001                   | 2000        | 1999     | 1998      |
|                           | HK\$'000        | HK\$'000               | HK\$'000    | HK\$'000 | HK\$'000  |
|                           |                 | (Restated)*            | (Restated)* |          |           |
| TURNOVER                  | <b>228,244</b>  | 515,868                | 420,648     | 353,480  | 181,405   |
| PROFIT/(LOSS) FROM        |                 |                        |             |          |           |
| OPERATING ACTIVITIES      | <b>(39,030)</b> | (60,175)               | 22,266      | 15,774   | 4,046     |
| Finance costs             | –               | (352)                  | (1,259)     | (823)    | (463)     |
| Share of losses of:       |                 |                        |             |          |           |
| Jointly-controlled entity | –               | (2,344)                | (441)       | –        | –         |
| Associate                 | –               | (26)                   | (32)        | –        | –         |
| PROFIT/(LOSS) BEFORE TAX  | <b>(39,030)</b> | (62,897)               | 20,534      | 14,951   | 3,583     |
| Tax                       | <b>(386)</b>    | (953)                  | (1,946)     | (783)    | (615)     |
| PROFIT/(LOSS) BEFORE      |                 |                        |             |          |           |
| MINORITY INTERESTS        | <b>(39,416)</b> | (63,850)               | 18,588      | 14,168   | 2,968     |
| Minority interests        | <b>(207)</b>    | (312)                  | (747)       | (366)    | (54)      |
| NET PROFIT/(LOSS) FROM    |                 |                        |             |          |           |
| ORDINARY ACTIVITIES       |                 |                        |             |          |           |
| ATTRIBUTABLE TO           |                 |                        |             |          |           |
| SHAREHOLDERS              | <b>(39,623)</b> | (64,162)               | 17,841      | 13,802   | 2,914     |

## ASSETS AND LIABILITIES

|                    | <b>Consolidated</b>      |             |           |          |          |
|--------------------|--------------------------|-------------|-----------|----------|----------|
|                    | <b>As at 31 December</b> |             |           |          |          |
| <b>2002</b>        | 2001                     | 2000        | 1999      | 1998     |          |
| <b>HK\$'000</b>    | HK\$'000                 | HK\$'000    | HK\$'000  | HK\$'000 | HK\$'000 |
|                    | (Restated)*              | (Restated)* |           |          |          |
| Total assets       | <b>372,481</b>           | 400,943     | 501,219   | 212,161  | 147,908  |
| Total liabilities  | <b>(61,945)</b>          | (56,369)    | (102,236) | (61,977) | (62,141) |
| Minority interests | <b>(1,349)</b>           | (1,352)     | (2,330)   | (1,583)  | (1,217)  |
|                    | <b>309,187</b>           | 343,222     | 396,653   | 148,601  | 84,550   |

\* Details of the restatement of certain comparative amounts are set out in notes 3 and 25 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 13 to the financial statements. Further details of the Group's investment properties are set out on page 64.

## 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 issued shares and share options of the Company during the year, together with the reasons therefor, are set out in notes 28 and 29 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 of the Group during the year are set out in notes 28 and 30 to the financial statements and in the consolidated summary statement of changes in equity.

## DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had no available distributable reserve, calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

The Company's share premium account may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

|  | Year ended<br>31 December<br>2002 |
|--|-----------------------------------|
| <b>Customers</b>   |                                   |
| Percentage of turnover attributable to the Group's five largest customers  | <u>41.1</u>                       |
| Percentage of turnover attributable to the Group's largest customer        | <u>11.1</u>                       |
| <b>Suppliers</b>   |                                   |
| Percentage of purchases attributable to the Group's five largest suppliers | <u>69.4</u>                       |
| Percentage of purchases attributable to the Group's largest supplier       | <u>47.7</u>                       |

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

### Non-executive directors:

Ha Shu Tong \*  
Lee Kwok On, Matthew, Ph.D.\*  
Lai Kai Ming, Dominic (resigned on 18 June 2002)

\* *Independent non-executive director*

In accordance with bye-law 87 of the Company's bye-laws, Mr. Leung King San, Sunny and Mr. Ha Shu Tong will retire at the forthcoming annual general meeting and, being eligible, will offer themselves 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 and 3 September 2001. 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 of the date of this 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 34(a) 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 2002, 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 held |                      |
|-----------------------|--|----------------------|
|                       | Personal interests                           | Corporate interests  |
| Ng Cheung Shing       | 2,032,000                                    | 110,000,000 (Note 1) |
| Leung King San, Sunny | 810,000                                      | –                    |
| Ma Mok Hoi            | 9,000  | –                    |

#### (ii) Associated corporations

| Name of director | Name of associated corporation                  | Nature of interest and number of shares held |                     |                     |
|------------------|---|--|---------------------|---------------------|
|                  |   | 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   | –                   | Ordinary            |

## **DIRECTORS' INTERESTS IN SHARES** (continued)

### **(A) Interests in shares** (continued)

*Note 1:* 110,000,000 shares were held by Chao Lien Technologies Limited ("Chao Lien"). Ng Cheung Shing was 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, was 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.

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

### **(B) Interests in share options**

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Apart from as disclosed under the headings "Directors' interests in shares" above and in the share option scheme disclosures in note 29 to the financial statements, 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**

Due to the adoption during the year of Hong Kong Statement of Standard Accounting Practice No. 34 "Employee benefits", most of the detailed disclosures relating to the Company's share option scheme have been moved to note 29 to the financial statements.

There were no share options granted during the year.

Save as disclosed above, as at 31 December 2002, 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 2002, 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:

| <b>Name of shareholder of the Company</b>       | <b>Number of shares</b> | <b>Percentage of issued share capital</b> |
|---|-------------------------|---|
| Chao Lien Technologies Limited <i>(Note 1)</i>  | 110,000,000             | 40.2                                      |
| C.S. (BVI) Limited <i>(Note 1)</i>              | 110,000,000             | 40.2                                      |
| Puttney Investments Limited <i>(Note 2)</i>     | 29,148,938              | 10.7                                      |
| Hutchison International Limited <i>(Note 2)</i> | 29,148,938              | 10.7                                      |

*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 related 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.

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 the 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 2002, 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 TRANSACTIONS

Details of the connected transactions for the year are set out in note 34 to the financial statements. The independent non-executive directors of the Company have reviewed the connected transactions set out in note 34 and confirmed that:

- (a) the transactions were entered into by the Group in the ordinary and usual course of its business;
- (b) the transactions were 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 transactions were carried out in accordance with the terms of the agreements governing such transactions.

## CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and of the Group are set out in note 33 to the financial statements.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted a prudent policy so as to maintain a stable financial condition. As at 31 December 2002, the aggregate of the Group's bank deposits and cash balance amounted to HK\$201,250,000, 93% of which was Hong Kong dollars or United States dollars.

The Group has banking facilities in Hong Kong dollars, United States dollars and Renminbi. The banking facilities are secured by fixed charges over the Group's investment properties situated in Hong Kong and certain bank fixed deposits. As of the balance sheet date, none of the facilities has been utilised, however, due to the outstanding interest-free "other loan" (note 27 to the financial statements), the gearing ratio has become 0.1% (2001: 0.2%) on the basis of total borrowings over total shareholders' equity.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the Group employed 296 employees (2001: 333 employees) in Hong Kong, the Mainland PRC and in other locations, primarily in Asia, and the geographic proportion is approximately 61%, 32% and 7%, respectively (2001: 38%, 52% and 10%). The total employee costs (excluding directors' remuneration) is approximately HK\$56,515,000 (2001: HK\$72,988,000, as restated).

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, retirement benefits, 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 30 May 2002 and 1 July 2000, respectively. During the year, no share options of the Company were granted to the employees and as at 31 December 2002, 5,193,000 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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  
8 April 2003