

## **DIRECTORS' REPORT**

The directors submit herewith their annual report together with the audited accounts for the year ended 31 December 2000.

### **Principal Activities**

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 22 on the accounts.

The analysis of the principal activities and geographical location of the Group's customers during the financial year are set out in notes 3 and 4 on the accounts.

### **Major Customers and Suppliers**

The information in respect of the Group's purchases attributable to the major suppliers during the financial year is as follows:

	<b>Percentage of the Group's total purchases</b>
The largest supplier	14%
Five largest suppliers in aggregate	43%

The percentage of turnover attributable to the five largest customers in aggregate accounted for less than 30 percent of the total sales of the Group during the year.

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors own more than 5 percent of the Company's share capital) had any interest in these major customers and suppliers.

### **Accounts**

The loss of the Group for the year ended 31 December 2000 and the state of the Company's and the Group's affairs as at that date are set out in the accounts on pages 17 to 58.

### **Dividends**

No dividends will be payable for the year (1999: HK\$nil paid).

### **Fixed Assets**

Details of additions and other movements in fixed assets of the Company and the Group during the financial year are set out in note 21 on the accounts.

## **Share Capital**

Details of the movements in share capital of the Company during the year are set out in note 34 on the accounts.

## **Reserves**

Movements in reserves of the Company and the Group during the year are set out in note 36 on the accounts.

## **Bank Loans and Other Borrowings**

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2000 are set out in notes 30 to 32 on the accounts.

## **Five Year 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 pages 59 and 60 of the annual report.

## **Directors**

The directors during the financial year were:

### *Executive directors:*

Christopher Coulcher

Lau Tai Ming, Eddy

Claude Jaeck

Sng Lai Kee

(appointed on 1 July 2000)

### *Independent non-executive directors:*

Gerald Dobby

Wu Sai Wing

In accordance with Article 103(A) of the Company's Articles of Association, all of the directors shall retire from office. The retiring directors shall be eligible for re-election.

## **Directors' Service Agreements**

Save as disclosed below, no director proposed for re-election at the forthcoming annual general meeting has a service agreement with any member of the Group which is not terminable within one year without payment of compensation (other than statutory compensation).

Mr. Christopher Coulcher, the Managing Director, renewed his service agreement on 12 November 1998 with the Company and his personal company, Performax Limited, for Mr. Coulcher to act as Managing Director of the Company. The said service agreement will thereafter continue unless and until terminated by the Company giving to Performax Limited not less than six months' notice or by Performax Limited giving to the Company six months' notice or such period of time as is mutually agreed between both parties. The agreement is not for a fixed term.

Mr. Claude Jaeck acts as the Marketing and Sales Director of the Company under a service agreement dated 15 April 1999 with the Company. The said service agreement will thereafter continue unless and until terminated by the Company giving to Mr. Jaeck twelve months' notice or by Mr. Jaeck giving to the Company three months' notice. The agreement is not for a fixed term.

Mr. Lau Tai Ming, Eddy acts as the Finance Director and Company Secretary of the Company under a service agreement dated 29 July 1998 with the Company and was amended on 12 November 1998. The said service agreement will thereafter continue unless and until terminated by the Company giving to Mr. Lau twelve months' notice or by Mr. Lau giving to the Company three months' notice. The agreement is not for a fixed term.

Mr. Sng Lai Kee was initially employed as General Manager — Manufacturing by the Company in September 1998 and was subsequently appointed as Executive Director — Manufacturing under a service agreement dated 1 July 2000 with the Company. The said service agreement will thereafter continue unless and until terminated by either party giving to the other party not less than six months' notice. The agreement is not for a fixed term.

#### **Directors' Interest in Contracts**

In the opinion of the directors, no contract of significance to which the Company or any of its subsidiaries and associates was a party, 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.

#### **Directors' Interest in Shares**

One of the directors who held office at 31 December 2000 had the following interests in the issued share capital of the Company at that date as recorded in the register as required under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") :

	<b>Number of shares</b>	
	<b>Personal interests</b>	<b>Corporate interests</b>
Christopher Coulcher	1,982,000	—

Save as disclosed above and other than shares in subsidiaries held by the directors in trust for the Company, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the directors or their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## **Directors' Rights to Acquire Shares or Debt Securities**

On 28 June 1996, the Company adopted an employee share option scheme ("Scheme") under which the Company may grant options to the directors and employees of the Company and its subsidiaries to subscribe up to 10 percent of the share capital of the Company in issue from time to time, excluding any shares issued pursuant to the exercise of options granted under the Scheme. Details of the Scheme are set out in note 35 on the accounts.

As at 31 December 2000, none of the directors held or were interested in any such options.

## **Substantial Interests in the Share Capital of the Company**

As at 31 December 2000 according to the register of interests required to be kept under section 16(1) of the SDI Ordinance, the shareholders who were interested in 10 percent or more of the issued share capital of the Company were as follows :

	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
Optiset Limited (note i)	373,342,850	51
Hatton Enterprises Corporation (note ii) (In liquidation)	94,118,950	13

### *Notes:*

- (i) Although Optiset Limited holds 51% of the Company's ordinary shares, the directors consider that it is not the Company's holding company, nor is there an ultimate holding company as such, for the reason that Optiset Limited is only a vehicle through which the individual bank creditors can hold the Company's shares and convertible notes in aggregate.
- (ii) Subsequent to the balance sheet date, on 19 March 2001, Hatton Enterprises Corporation's interest in the Company has been transferred to William E. Simon & Sons (Asia) Ltd by its liquidator.

## **Purchase, Sale or Redemption of Securities**

There was no purchase, sale or redemption of shares or other securities of the Company by the Company or its subsidiaries during the year.

## **Compliance with the Code of Best Practice**

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

### **Hanmy (Holding) Limited and its related companies (collectively “Hanmy”)**

The Group continues its legal proceedings against Hanmy to recover the amounts owed by Hanmy to the Group of approximately HK\$96.3 million. Whilst the Group has not yet obtained a court judgement due to Hanmy’s defence, the Group will continue to vigorously pursue legal proceedings on legal advice. The Group has provided HK\$94.6 million in total in its accounts against the amounts due from Hanmy. The balance of HK\$1.7 million represents the estimated amount recoverable from Hanmy based on the assets the Group believes to be owned by Hanmy and believes it will receive following the conclusion of the legal proceedings.

### **Litigation Against Mr. Lam Yin Sang and Ms. Chan Hoi Wo**

On 15 July 1999, with the approval of the Board of Directors, the Group instigated legal proceedings against Mr. Lam Yin Sang and Ms. Chan Hoi Wo, for losses of HK\$479 million sustained as a result of various alleged breaches of fiduciary and other duties while acting formerly as directors of the Group.

Subsequent to this, Mr. Lam Yin Sang was declared bankrupt by the Court. In light of this, the directors continue to review the position with legal advisors so appropriate actions can be taken. Whilst Ms. Chan has contested the Group’s claim, the Group will continue to vigorously pursue legal proceedings on legal advice.

### **Auditors**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**Gerald Dobby**

*Chairman*

Hong Kong, 23 April 2001