

# Report of the Directors

The directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (hereinafter referred to as the "Group") for the year ended 30 June 2001.

## 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 17 to the financial statements. During the year under review, the Group has ceased its business of the manufacture and trading of building materials.

The Group's turnover and contribution to profit from operations by principal activities and by geographical locations for each of the two years ended 30 June 2000 and 2001 are as follows:

|  | Turnover           |                    | Contribution to profit from operations |                     |
|--|--------------------|--------------------|--|---------------------|
|  | 2001<br>HK\$       | 2000<br>HK\$       | 2001<br>HK\$                           | 2000<br>HK\$        |
| By principal activities:                                     |                    |                    |  |                     |
| Continuing operations  |                    |                    |  |                     |
| Manufacturing and trading of electrical equipment            | 93,861,346         | 90,132,245         | 18,319,452                             | 16,981,973          |
| Trading of listed securities                                 | 76,825,615         | 18,172,116         | (7,700,031)                            | 2,455,027           |
| Provision of electrical engineering and contracting services | 27,332,074         | 43,956,342         | 2,511,278                              | 3,790,119           |
| Discontinued operations                                      |                    |                    |  |                     |
| Manufacturing and trading of building materials              | 5,355              | 400,175            | 5,355                                  | 39,195              |
|  | <u>198,024,390</u> | <u>152,660,878</u> | 13,136,054                             | 23,266,314          |
| Interest income  |                    |                    | 1,901,953                              | 3,862,038           |
| Other income   |                    |                    | 11,045,935                             | 758,088             |
| Distribution costs   |                    |                    | (2,485,246)                            | (2,371,717)         |
| General and administrative expenses (Note)                   |                    |                    | <u>(66,353,401)</u>                    | <u>(17,013,427)</u> |
|  |                    |                    | <u>(42,754,705)</u>                    | <u>8,501,296</u>    |

# Report of the Directors *(Continued)*

## PRINCIPAL ACTIVITIES *(Continued)*

|  | Turnover            |                     | Contribution to profit<br>from operations |                     |
|--|---------------------|---------------------|---|---------------------|
|  | 2001<br><i>HK\$</i> | 2000<br><i>HK\$</i> | 2001<br><i>HK\$</i>                       | 2000<br><i>HK\$</i> |
| By geographical locations:                           |                     |                     |   |                     |
| The People's Republic of China:                      |                     |                     |   |                     |
| Hong Kong  | 198,024,390         | 152,260,703         | 13,136,054                                | 23,227,119          |
| China  | —                   | 400,175             | —   | 39,195              |
|  | <u>198,024,390</u>  | <u>152,660,878</u>  | 13,136,054                                | 23,266,314          |
| Interest income                                      |                     |                     | 1,901,953                                 | 3,862,038           |
| Other income   |                     |                     | 11,045,935                                | 758,088             |
| Distribution costs                                   |                     |                     | (2,485,246)                               | (2,371,717)         |
| General and administrative<br>expenses <i>(Note)</i> |                     |                     | <u>(66,353,401)</u>                       | <u>(17,013,427)</u> |
|  |                     |                     | <u>(42,754,705)</u>                       | <u>8,501,296</u>    |

*Note:* Legal and professional fees of \$2,020,968 were included in general and administrative expenses which were excluded in year 2000 as these expenses were relating to the fees paid to the Joint and Several Provisional Liquidators.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the five largest customers accounted for approximately 42% (2000 — 43%) of the Group's total turnover and the five largest suppliers accounted for approximately 32% (2000 — 31%) of the Group's total purchases.

The largest customer accounted for approximately 15% (2000 — 16%) of the Group's total turnover and the largest supplier accounted for approximately 21% (2000 — 22%) of the Group's total purchases.

None of the directors, their associates, or any shareholder (who to the knowledge of the directors own more than 5% of the Company's share capital) had beneficial interests in the Group's five largest customers and suppliers.

# Report of the Directors *(Continued)*

## **RESULTS AND APPROPRIATION**

The results of the Group for the year ended 30 June 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 75.

The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2001 (2000 — Nil).

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in Note 28 to the financial statements.

As at 30 June 2001, the Company's reserves available for distribution to shareholders were HK\$45,257,507 (2000 — HK\$64,485,340) in accordance with the provisions of section 79B of the Companies Ordinance.

# Report of the Directors *(Continued)*

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out below:

### Results

|  | Year ended 30 June      |                         |                         |                         |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | 1997<br><i>HK\$'000</i> | 1998<br><i>HK\$'000</i> | 1999<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> |
| Turnover   | <u>215,429</u>          | <u>364,393</u>          | <u>190,547</u>          | <u>152,661</u>          | <u>198,024</u>          |
| Operating profit/(loss) from ordinary activities       | 2,846                   | (5,702)                 | (4,064)                 | 7,009                   | (42,769)                |
| Share of results of associates                         | <u>(152)</u>            | <u>(12,942)</u>         | <u>(6,335)</u>          | <u>—</u>                | <u>—</u>                |
| Profit/(loss) from ordinary activities before taxation | <u>2,694</u>            | <u>(18,644)</u>         | <u>(10,399)</u>         | <u>7,009</u>            | <u>(42,769)</u>         |
| Taxation charge for the year                           | <u>(4,568)</u>          | <u>(4,528)</u>          | <u>(2,714)</u>          | <u>(1,295)</u>          | <u>(1,086)</u>          |
| Profit/(loss) before minority interests                | (1,874)                 | (23,172)                | (13,113)                | 5,714                   | (43,855)                |
| Minority interests                                     | <u>(1,451)</u>          | <u>(4,374)</u>          | <u>(3,826)</u>          | <u>(1,763)</u>          | <u>(3,134)</u>          |
| Profit/(loss) for the year                             | <u>(3,325)</u>          | <u>(27,546)</u>         | <u>(16,939)</u>         | <u>3,951</u>            | <u>(46,989)</u>         |

### Assets and Liabilities

|                     | At 30 June              |                         |                         |                         |                         |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                     | 1997<br><i>HK\$'000</i> | 1998<br><i>HK\$'000</i> | 1999<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> |
| Total assets        | 230,787                 | 207,080                 | 188,846                 | 188,967                 | 156,149                 |
| Total liabilities   | (71,425)                | (70,889)                | (68,356)                | (72,763)                | (75,048)                |
| Minority interests  | <u>(11,707)</u>         | <u>(16,082)</u>         | <u>(17,321)</u>         | <u>(9,084)</u>          | <u>(6,646)</u>          |
| Shareholders' funds | <u>147,655</u>          | <u>120,109</u>          | <u>103,169</u>          | <u>107,120</u>          | <u>74,455</u>           |

# Report of the Directors *(Continued)*

## TANGIBLE FIXED ASSETS

Details of the movements in tangible fixed assets of the Group during the year are set out in Note 14 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital during the year are set out in Note 27 to the financial statements.

## BORROWINGS AND INTEREST CAPITALISED

All borrowings which are repayable within one year or on demand are classified as current liabilities.

No interest was capitalized by the Group during the year.

## DIRECTORS

The directors of the Company during the year and subsequently were:

### Executive directors:

|                                       |  |
|---------------------------------------|--|
| Mr Chen Chak Man ( <i>Chairman</i> )  | (Appointed on 31 July 2001)  |
| Mr Ip Yun Kit                         | (Appointed on 31 July 2001)  |
| Mr Clive William Baker Oxley, OBE, ED | (Appointed on 11 October 2001) (* Note 1)                                |
| Mr Chan Kin Sang                      | (Appointed on 11 October 2001) (* Note 1)                                |
| Mr Lau Kwok Hung                      | (Appointed on 11 October 2001)   |
| Mr Yeung Kang Lam                     | (Appointed on 28 September 2000 and resigned on 11 October 2001)         |
| Mr So Yiu Cho, James, CBE, JP.        | (Appointed on 4 December 2000 and resigned on 29 August 2001) (* Note 2) |
| Mr Yau Tak Fu                         | (Appointed on 28 September 2000 and resigned on 29 August 2001)          |
| Ms Yau Wai Fan                        | (Appointed on 28 September 2000 and resigned on 11 October 2001)         |
| Mr Chan Sze Tsung                     | (Appointed on 28 September 2000 and resigned on 29 August 2001)          |
| Mr Tsang Wai Kwok                     | (Appointed on 15 June 2001 and resigned on 29 August 2001)               |
| Mr Sun Tak Keung                      | (Resigned on 22 November 2000)   |
| Ms Mak Chor Kwan                      | (Resigned on 22 November 2000)   |
| Mr Cheng Kwok Hing, Andy              | (Resigned on 22 November 2000)   |

# Report of the Directors *(Continued)*

## **DIRECTORS** *(Continued)*

### **Non-executive directors:**

|                   |   |
|-------------------|---|
| Mr Ng Kai Shing   | (Appointed on 31 July 2001)                                 |
| Mr Lee Kwok Leung | (Appointed on 23 April 2001 and resigned on 29 August 2001) |

### **Independent non-executive directors:**

|                           |   |
|---------------------------|---|
| Mr Koh Tat Lee            | (Appointed on 31 July 2001)                                     |
| Mr See Lee Seng, Reason   | (Appointed on 31 July 2001)                                     |
| Mr Ho Kai Wah, Francis    | (Appointed on 28 September 2000 and resigned on 29 August 2001) |
| Mr Wong Man Him           | (Appointed on 4 December 2000 and resigned on 26 February 2001) |
| Mr Chow Chun Kay, Stephen | (Appointed on 26 February 2001 and resigned on 15 June 2001)    |

#### *Notes:*

1. Mr Clive William Baker Oxley and Mr Chan Kin Sang, who were appointed independent non-executive director and non-executive director of the Company respectively on 31 July 2001, were appointed executive directors of the Company with effect from 11 October 2001.
2. Mr So Yiu Cho, James, who was appointed independent non-executive director of the Company on 28 September 2000, was appointed executive director of the Company with effect from 4 December 2000.

In accordance with Articles 79 and 80 of the Company's Articles of Association, Mr Koh Tat Lee, Mr See Lee Seng, Reason and Mr Ng Kai Shing shall retire by rotation and being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The terms of office of non-executive directors are subject to retirement by rotation in accordance with the above Article.

# Report of the Directors *(Continued)*

## DIRECTORS' INTERESTS IN SECURITIES

### (1) Shares

Other than certain nominee shares in the subsidiaries held by directors in trust for the Company, as at 30 June 2001, the interests of the directors in securities of the Company or any of its associated corporations as defined in Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

| Director       | Nature of interest | Number of ordinary shares held |
|----------------|--------------------|--------------------------------|
| Yeung Kang Lam | Corporate          | 3,625,000                      |

These shares were held by Interactive Spirit Limited which is wholly and beneficially held by Mr Yeung Kang Lam.

### (2) Options

As at 30 June 2001, the directors of the Company had the following personal interests in options to subscribe for shares granted under a share option scheme of the Company. The market value per share at the date of granting the share option and at the balance sheet date were approximately HK\$0.99 and HK\$0.12 (the trading of shares was suspended on the balance sheet date, HK\$0.12 was the closing price on 4 June 2001, being the last trading before the balance sheet date) respectively. Each share option gives the holder the rights to subscribe for one share and is exercisable during the period between 20 April 2001 and 19 April 2004.

| Name of directors             | No. of options outstanding at the year end | Date granted  | Exercise price per share |
|-------------------------------|--|---------------|--------------------------|
| Mr Yeung Kang Lam             | 4,000,000                                  | 20 April 2001 | HK\$0.75                 |
| Mr So Yiu Cho, James, CBE, JP | 9,000,000                                  | 20 April 2001 | HK\$0.75                 |
| Ms Yau Wai Fan                | 1,000,000                                  | 20 April 2001 | HK\$0.75                 |
| Mr Yau Tak Fu                 | 4,000,000                                  | 20 April 2001 | HK\$0.75                 |
| Mr Chan Sze Tsung             | 500,000                                    | 20 April 2001 | HK\$0.75                 |

Save as disclosed above, none of the Company's directors and chief executives, 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.

# Report of the Directors *(Continued)*

## **ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES**

The Share Option Scheme adopted by the Company on 30 November 2000 enables the directors and employees of the Group to subscribe for shares in the Company, details of which are set out in Note 27 to the financial statements.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or its subsidiaries.

## **SUBSIDIARIES AND ASSOCIATES**

Details of the Company's subsidiaries and associates as at 30 June 2001 are set out in Notes 17 and 19 respectively to the financial statements.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

On 23 May 2001, 110,000 ordinary shares of HK\$0.02 each were repurchased by the Company at a premium of HK\$0.169 which involved a total cash outlay of HK\$20,790. On 31 May 2001, the repurchased shares were duly cancelled.

Apart from the foregoing, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

## **MANAGEMENT CONTRACTS**

No contracts, other than contract of service with any person engaged in the full time employment of the Company, 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.

## **DIRECTORS' SERVICE CONTRACTS**

Most service agreements with the directors were made in June 2001, with their periods of service retrospectively dated back to the first day of service with the Company. In the minutes of the Board meeting dated 24 July 2001, it was resolved that service agreements with Messrs So Yiu Cho, James, Yau Tak Fu, Chan Sze Tsung and Tsang Wai Kwok were declared null and void.

Apart from the foregoing, no director 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 other than statutory compensation.



# Report of the Directors *(Continued)*

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in the Section headed "Connected/Related Party Transactions" below, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which any 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.

## **SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY**

The Company has been notified of the following interests in the Company's issued shares as at 30 June 2001 amounting to 10% or more of the ordinary shares in issue:

| <b>Name of shareholders</b> | <b>No. of ordinary shares held</b> |
|-----------------------------|------------------------------------|
| 369 Holdings Limited        | 300,000,000                        |

Save as disclosed above, no person had registered an interest of 10% or more of the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance as at 30 June 2001.

## **CONNECTED/RELATED PARTY TRANSACTIONS**

On 26 February 2001, the Company entered into an agreement with Mr Wong Man Him, being one of the Vendors of the agreement and a director of M-star Limited and an independent non-executive director of the Company prior to the signing of the agreement. The agreement stipulated that the Company acquired 60% equity interest in M-star Limited and 60% of the shareholders' loan outstanding for an aggregate consideration of HK\$16 million which have been settled as to HK\$3 million by cash and as to HK\$13 million by the allotment and issue of the Company's shares.

Details of other related party transactions of the Group are set out in Note 39 to the financial statements.

# Report of the Directors *(Continued)*

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

*Mr Chen Chak Man*, aged 48, was appointed as Chairman of the Board and executive director on 31 July 2001. He holds a Diploma of Technology from the British Columbia Institute of Technology, Canada. He was accredited as a Member of the Canadian Credit Institute, Canada, and an Associate of the Institute of Canadian Bankers.

*Mr Ip Yun Kit*, aged 41, was appointed an executive director on 31 July 2001. He holds a Bachelor of Business Administration, a Diploma in Management Systems and a Master of Arts in Management Systems. Mr Ip is a fellow member of the Institute of Business Administration and a member of the Chartered Institute of Marketing. He is an executive director of a consultant company.

*Mr Chan Kin Sang*, aged 50, was appointed a non-executive director on 31 July 2001 and appointed an executive director on 11 October 2001. Mr Chan is a senior partner of a law firm in Hong Kong and has been a practising lawyer in Hong Kong for more than 19 years. He holds a Bachelor's degree in Law and a Postgraduate Certificate in Laws from the University of Hong Kong. Mr Chan was admitted as a solicitor in Hong Kong, England and Wales, Australia and Singapore. He is a Notary Public of Hong Kong and a China-Appointed Attesting Officer. He is a Committee Member of the Chinese People's Political Consultative Conference of Guangxi Province in the PRC. He is also an independent non-executive director of a company which is listed on the main board of the Stock Exchange and a PRC company which is listed on the main board of the Singapore Stock Exchange.

*Mr Clive William Baker Oxley*, OBE, ED, aged 65, was appointed an independent non-executive director of the Company on 31 July 2001 and appointed an executive director on 11 October 2001. He retired after 25 years service with the Hong Kong Government as Commissioner for Customs and Excise in 1994. His former posts included those of District Officer in Sham Shui Po, Sai Kung and Taipo, Deputy Director of Broadcasting, Commissioner of Recreation and Culture and Deputy Secretary and acting Secretary of Planning, Environment and Lands when he was a member of the Sino-British Land Commission. He is the Chairman of the Hong Kong Society for the Blind and Chairman of the Asian Foundation for the Prevention of Blindness. He is also a director of several companies which are listed on the main board of the Stock Exchange.

# Report of the Directors *(Continued)*

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT** *(Continued)*

*Mr Lau Kwok Hung*, aged 55, was appointed an executive director on 11 October 2001. Mr Lau graduated from the Department of Accountancy, Hong Kong Polytechnic (now Hong Kong Polytechnic University). Formerly, he was a fellow member of the Chartered Association of Certified Accountants and an associate member of the Chartered Institute of Management Accountants. He is now a fellow member of the Hong Kong Society of Accountants. He has over 25 years of experience in accounting and finance, auditing, taxation, company secretarial matters and corporate finance. He is also the Company Secretary of the Company.

*Mr Ng Kai Shing*, aged 55, was appointed a non-executive director on 31 July 2001. He has over 30 years' experience in the finance and accounting fields. He has been a finance director/controller of several publicly listed companies in Hong Kong. He is currently an executive director of a company which is listed on the main board of the Stock Exchange.

*Mr Koh Tat Lee*, aged 34, was appointed an independent non-executive director on 31 July 2001. He graduated with a double Masters degree in Electrical Engineering and Industrial Engineering from Columbia University in the United States. Mr Koh has more than ten years of experience in the telecommunications industry. He is also a director of a company which is listed on the GEM board of the Stock Exchange.

*Mr See Lee Seng, Reason*, aged 42, was appointed an independent non-executive director on 31 July 2001. Mr See has over 19 years of experience in fund and portfolio management and securities dealing. From 1981 to 1988, Mr See was the manager and chief dealer of Drexel Burnham Lambert Inc. (HK) Limited. From 1988 to 1990, Mr See was the assistant Vice President of Drexel Burnham Lambert Trading Inc.. In 1993, he took up the position of senior investment consultant in AIM Y.K. Hui Investment Consultants Limited. Mr See has been the managing director of a company engaging in investment advisory work. He is also an executive director of a company which is listed on the main board of the Stock Exchange.

## **RETIREMENT SCHEME**

Details of the retirement scheme of the Group and the employer's pension costs charged to the consolidated income statement for the year are set out in Note 6 to the financial statements. In the opinion of the directors, the Group had no significant obligations at 30 June 2001 for long service payments to its employees pursuant to the requirements under the Employment Ordinance.

# Report of the Directors *(Continued)*

## **CORPORATE GOVERNANCE**

Based on the interim report of the Company dated 28 March 2001, an Audit Committee was formed to review with the then management the accounting principles and practices adopted by the Group and to discuss the internal control and financial report matters including the review of the unaudited interim financial statements. As none of the current members of the Board was a member of the Board for the year ended 30 June 2001, the current directors of the Company therefore are not in a position to express any opinion as to whether or not the Company did or did not comply throughout the year ended 30 June 2001 with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in Note 43 to the financial statements.

## **AUDITORS**

Messrs HLB Hodgson Impey Cheng were appointed by the Board of Directors on 24 October 2001 to act as auditors of the Company to fill the casual vacancy arising from the resignation of Messrs Deloitte Touche Tohmatsu.

A resolution will be submitted to the annual general meeting to re-appoint Messrs HLB Hodgson Impey Cheng as auditors of the Company.

On Behalf of the Board  
**Chen Chak Man**  
*Chairman*

Hong Kong, 26 October 2001