

The directors submit their report and the audited accounts for the year ended 31 December 2001.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. It provides corporate management services to its group companies. The activities of the Company's principal subsidiaries are set out in note 15 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated profit and loss account on page 28.

The directors have declared an interim dividend of 1 HK cent per share amounting to approximately HK\$11.46 million which was paid to the shareholders on 5 November 2001.

The directors recommend the payment of a final dividend of 0.25 HK cent per share to the shareholders on the register of members on 27 May 2002, amounting to approximately HK\$2.86 million, and the retention of the remaining profit for the year.

## **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the accounts.

## **DONATIONS**

Charitable and other donations made by the Group during the year amounted to HK\$252,000.

## **FIXED ASSETS**

Details of the movements in the fixed assets of the Group and the Company during the year are set out in note 13 to the accounts.

## **MAJOR PROPERTIES**

Details of the major properties of the Group at 31 December 2001 are set out on page 84.

## **SHARE CAPITAL**

Details of the movements in share capital of the Company during the year are set out in note 26 to the accounts.

## BORROWINGS AND INTEREST CAPITALISED

Analyses of the maturity of bank loans and other loans are set out in notes 28 and 29 to the accounts.

Interest capitalised by the Group during the year amounted to approximately HK\$11,985,000 in respect of properties under development and properties under development for sale.

## FIVE YEAR FINANCIAL 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 85 and 86.

## DIRECTORS

The directors who held office during the year and up to the date of this report were:

### Executive directors:

Fung Ka Pun (*Executive Co-Chairman*)

Wong Sin Just (*Executive Co-Chairman*)

Tam Yuk Ching, Jenny

(*Alternate Director to Mr. Wong Sin Just*)

### Independent non-executive directors:

Ongpin Roberto V

Chung Cho Yee, Mico

(appointed on 9 March 2001)

Yip Hak Yung, Peter

(resigned on 9 March 2001)

In accordance with Clause 99 of the Company's New Bye-laws, all remaining directors retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

The term of office for non-executive directors of the Company are subject to retirement and re-election at the annual general meeting in accordance with the Company's New Bye-laws.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in the section headed "Connected Transactions", no contracts of significance in relation to the Group's business 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.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 December 2001, the interests of the directors and chief executive and their associates in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) ("Associated Corporations") as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of Director	Number of shares of the Company held		
	Personal interests	Corporate interests	
Fung Ka Pun	6,310,850	302,789,957	(Note 1)
Wong Sin Just	—	298,100,000	(Note 2)
Tam Yuk Ching, Jenny	—	298,100,000	(Note 2)

Notes:

- (1) Mr. Fung Ka Pun has beneficial interests in Bo Hing Limited and Goodwill International (Holdings) Limited ("Goodwill International"), which were interested in 5,220,866 shares and 297,569,091 shares in the Company as at 31 December 2001, respectively. Goodwill International is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders".
- (2) Mr. Wong Sin Just and Madam Tam Yuk Ching, Jenny have beneficial interests in e2-Capital Inc., which was interested in 298,100,000 shares in the Company as at 31 December 2001. e2-Capital Inc. is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders".

Other than as disclosed above, as at 31 December 2001, none of the directors and chief executive and their associates had any other interests in shares in, or debentures of, the Company or any of its Associated Corporations which had been entered in the register maintained by the Company under Section 29 of the SDI Ordinance.

## SHARE OPTION SCHEME

Under the share option scheme (the "Scheme") approved by the shareholders at a Special General Meeting of the Company held on 15 December 1992 ("Adoption Date"), the directors may, at their discretion, invite any full time employees or directors of the Company or any of its subsidiaries, as incentive to take up options to subscribe for shares which in aggregate, may not exceed 10% of the issued share capital of the Company from time to time.

As at 31 December 2001, the total number of shares available for issue under the Scheme are 59,519,000 shares, representing approximately 5.2% of the total issued share capital thereof.

No option shall be granted to any full time employee or director of the Company or any of its subsidiaries if the number of shares the subject of such option when added to the number of shares which may be subscribed by him/her under any outstanding options granted to him/her and the number of shares already issued to him/her under options previously granted would exceed 25% of the maximum number of shares available for subscription under the terms of the Scheme at the relevant time.

An offer of the grant of an option shall be made to a full time employee or director of the Company or any of its subsidiaries by letter in such form as the directors may from time to time determine requiring him/her to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Scheme and shall remain open for acceptance by him/her for a period of 28 days from the date of offer.

## REPORT OF THE DIRECTORS

The subscription price for the shares in respect of which options are granted shall be the higher of the nominal value or not more than 20% below the average closing price of the shares quoted on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for five trading days immediately preceding the date of grant of the option. The options granted may be exercised at any time during the period of not exceeding 10 years commencing on the date upon which the option is deemed to be granted and accepted and expiring on the last date of the period of 10 years commencing on the Adoption Date.

The life of the Scheme is 10 years commencing on the Adoption Date and will end on 14 December 2002.

Details of the share options outstanding as at 31 December 2001 which have been granted under the Scheme are as follows:

Name of Director	Date of Grant	Exercise Price HK\$	Number of share options		
			held at 1.1.2001	lapsed during the year	held at 31.12.2001
Fung Ka Pun	17.3.1997	1.77	6,375,000	—	6,375,000
Choi Hon Hing (Note 1)	17.3.1997	1.77	1,500,000	—	1,500,000
	23.4.1998	0.80	2,000,000	—	2,000,000 (Note 2)
	29.4.2000	0.79	4,000,000	—	4,000,000 (Note 3)
Continuous Contract Employees	17.3.1997	1.77	1,724,000	—	1,724,000
	23.4.1998	0.80	2,000,000	—	2,000,000 (Note 2)
	6.3.2000	1.20	3,050,000	—	3,050,000 (Note 4)
	29.4.2000	0.79	11,000,000	(2,000,000)	9,000,000 (Note 6)
	3.6.2000	0.79	2,360,000	(240,000)	2,120,000 (Note 8)
	15.8.2000	0.79	7,750,000	(1,250,000)	6,500,000 (Note 10)
Other	1.8.1997	2.68	1,050,000	(300,000)	750,000
	6.3.2000	1.20	750,000	—	750,000 (Note 4)
	13.4.2000	1.03	4,000,000	—	4,000,000 (Note 5)
	29.4.2000	0.79	15,000,000	(8,000,000)	7,000,000 (Note 7)
	6.5.2000	0.85	3,250,000	(3,250,000)	—
	3.6.2000	0.79	2,370,000	(370,000)	2,000,000 (Note 9)
	15.8.2000	0.79	3,250,000	(3,000,000)	250,000 (Note 11)
	1.9.2000	0.79	6,500,000	—	6,500,000 (Note 12)
			77,929,000	(18,410,000)	59,519,000

Subject to certain conditions of the Scheme, the outstanding options can be exercised at any time up to 14 December 2002 subject to the following notes 2-12.

Notes:

1. Madam Choi Hon Hing is the spouse of Mr. Fung Ka Pun and is also a director of Crebox Limited ("Crebox"), an indirect wholly-owned subsidiary of the Company.

2. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 30% of the options granted shall be exercisable on or after 1 April 1999;
  - (ii) up to a maximum of 60% of the options granted shall be exercisable on or after 1 April 2000; and
  - (iii) the full amount of the options granted shall be exercisable on or after 1 April 2001.
3. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 660,000 of the options granted shall be exercisable after 16 October 2000;
  - (ii) up to a maximum of 1,320,000 of the options granted shall be exercisable after 16 April 2001;
  - (iii) up to a maximum of 1,980,000 of the options granted shall be exercisable after 16 October 2001;
  - (iv) up to a maximum of 2,640,000 of the options granted shall be exercisable after 16 April 2002;
  - (v) up to a maximum of 3,330,000 of the options granted shall be exercisable after 16 October 2002; and
  - (vi) the full amount of the options granted shall be exercisable after 6 December 2002.
4. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 30% of the options granted shall be exercisable on or after 1 February 2001; and
  - (ii) the full amount of the options granted shall be exercisable on or after 1 February 2002.
5. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 660,000 of the options granted shall be exercisable after 16 October 2000;
  - (ii) up to a maximum of 660,000 of the options granted plus the balance on 16 October 2000 shall be exercisable after 16 April 2001;
  - (iii) up to a maximum of 660,000 of the options granted plus the balance on 16 April 2001 shall be exercisable after 16 October 2001;
  - (iv) up to a maximum of 660,000 of the options granted plus the balance on 16 October 2001 shall be exercisable after 16 April 2002;
  - (v) up to a maximum of 660,000 of the options granted plus the balance on 16 April 2002 shall be exercisable after 16 October 2002; and
  - (vi) up to a maximum of 700,000 of the options granted plus the balance on 16 October 2002 shall be exercisable after 6 December 2002.
6. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 1,484,000 of the options granted shall be exercisable after 16 October 2000;
  - (ii) up to a maximum of 2,968,000 of the options granted shall be exercisable after 16 April 2001;
  - (iii) up to a maximum of 4,452,000 of the options granted shall be exercisable after 16 October 2001;
  - (iv) up to a maximum of 5,936,000 of the options granted shall be exercisable after 16 April 2002;
  - (v) up to a maximum of 7,420,000 of the options granted shall be exercisable after 16 October 2002; and
  - (vi) the full amount of the options granted shall be exercisable after 6 December 2002.

7. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 1,154,000 of the options granted shall be exercisable after 16 October 2000;
  - (ii) up to a maximum of 2,308,000 of the options granted shall be exercisable after 16 April 2001;
  - (iii) up to a maximum of 3,462,000 of the options granted shall be exercisable after 16 October 2001;
  - (iv) up to a maximum of 4,616,000 of the options granted shall be exercisable after 16 April 2002;
  - (v) up to a maximum of 5,770,000 of the options granted shall be exercisable after 16 October 2002; and
  - (vi) the full amount of the options granted shall be exercisable after 6 December 2002.
8. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 344,000 of the options granted shall be exercisable after 30 November 2000;
  - (ii) up to a maximum of 688,000 of the options granted shall be exercisable after 30 May 2001;
  - (iii) up to a maximum of 1,032,000 of the options granted shall be exercisable after 30 November 2001;
  - (iv) up to a maximum of 1,376,000 of the options granted shall be exercisable after 30 May 2002;
  - (v) up to a maximum of 1,720,000 of the options granted shall be exercisable after 30 November 2002; and
  - (vi) the full amount of the options granted shall be exercisable after 6 December 2002.
9. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 330,000 of the options granted shall be exercisable after 30 November 2000;
  - (ii) up to a maximum of 660,000 of the options granted shall be exercisable after 30 May 2001;
  - (iii) up to a maximum of 990,000 of the options granted shall be exercisable after 30 November 2001;
  - (iv) up to a maximum of 1,320,000 of the options granted shall be exercisable after 30 May 2002;
  - (v) up to a maximum of 1,650,000 of the options granted shall be exercisable after 30 November 2002; and
  - (vi) the full amount of the options granted shall be exercisable after 6 December 2002.
10. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 1,082,000 of the options granted shall be exercisable after 15 January 2001;
  - (ii) up to a maximum of 2,164,000 of the options granted shall be exercisable after 15 July 2001;
  - (iii) up to a maximum of 3,246,000 of the options granted shall be exercisable after 15 January 2002;
  - (iv) up to a maximum of 4,328,000 of the options granted shall be exercisable after 15 July 2002; and
  - (v) the full amount of the options granted shall be exercisable after 6 December 2002.

11. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 40,000 of the options granted shall be exercisable after 15 January 2001;
  - (ii) up to a maximum of 80,000 of the options granted shall be exercisable after 15 July 2001;
  - (iii) up to a maximum of 120,000 of the options granted shall be exercisable after 15 January 2002;
  - (iv) up to a maximum of 160,000 of the options granted shall be exercisable after 15 July 2002; and
  - (v) the full amount of the options granted shall be exercisable after 6 December 2002.
12. Options granted shall be exercisable only in accordance with the following terms:
  - (i) up to a maximum of 1,100,000 of the options granted shall be exercisable after 1 March 2001;
  - (ii) up to a maximum of 2,200,000 of the options granted shall be exercisable after 1 September 2001;
  - (iii) up to a maximum of 3,300,000 of the options granted shall be exercisable after 1 March 2002;
  - (iv) up to a maximum of 4,400,000 of the options granted shall be exercisable after 1 September 2002; and
  - (v) the full amount of the options granted shall be exercisable after 6 December 2002.

Other than as disclosed above, at no time during the year was the Company or any of its Associated Corporations 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 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its Associated Corporations.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31 December 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of shares held
Goodwill International	297,569,091
e2-Capital Inc.	298,100,000

Other than as disclosed above, as at 31 December 2001, the Company had not been notified of any other interests amounting to 10% or more of the Company's issued share capital required to be disclosed pursuant to the SDI Ordinance.

# REPORT OF THE DIRECTORS

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

During the year, the Company repurchased a total of its 1,000,000 shares through the Stock Exchange, all of which have been duly cancelled, as follows:

Month of repurchase	No. of shares repurchased	Price per share		Total consideration HK\$
		Highest HK\$	Lowest HK\$	
July	400,000	0.31	—	124,000
August	500,000	0.35	—	175,000
December	100,000	0.30	—	30,000
	<u>1,000,000</u>			<u>329,000</u>

The directors considered that as the Company's shares were trading at a significant discount to its net asset value per share, the repurchases would increase its net asset value per share.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's New Bye-laws and there was no restriction against such rights under the laws of Bermuda.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the five largest customers combined and the five largest suppliers combined are less than 30% of the Group's total turnover and purchases, respectively.

## MANAGEMENT CONTRACTS

No contracts 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.



**CONNECTED TRANSACTIONS**

During the year ended 31 December 2001, the Group entered into the following transactions which constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and are required to be disclosed in accordance with Chapter 14 of the Listing Rules:

- (a) On 26 February 2000, Goodwill International (BVI) Limited ("Goodwill International BVI") and Crebox (both are indirect wholly-owned subsidiaries of the Company) together with the Company as warrantor granted to Goodwill International an option to acquire up to an aggregate of 6,502,672 shares in the issued share capital of Boxmore Limited ("Boxmore"), an indirectly owned subsidiary of the Company prior to 15 June 2001, representing 88% of Boxmore's issued share capital ("Boxmore Option"). The Boxmore Option was exercisable from 17 April 2000 to 16 April 2001 at the total price of HK\$88,000,000 for the 88% interest in Boxmore (or part thereof on a pro rata basis) to be settled in cash.

On 19 March 2001, the Group entered into an extension agreement (the "Extension Agreement") with Goodwill International, pursuant to which the exercise period of the Boxmore Option was extended for 3 months to 16 July 2001 (the "Extension"). No consideration was involved in the Extension. The Extension Agreement was approved by the shareholders of the Company on 12 April 2001.

On 23 May 2001, Goodwill International served a written notice on the Company, Goodwill International BVI and Crebox in accordance with an agreement dated 26 February 2000, as supplemented by the Extension Agreement, in relation to the granting of the Boxmore Option to exercise the option to acquire a 50% interest in Boxmore owned by the Group at a consideration of HK\$50,000,000. The transaction was completed on 15 June 2001.

- (b) On 19 January 2001, Alfa Com Technology Limited ("Alfa Com Technology"), Alfa Com Cyber Base Limited ("Alfa Com Cyber"), e-Applications Group Limited ("e-Applications"), an indirect wholly-owned subsidiary of the Company, and ebizal Limited (now known as Smart Universe Group Limited), an indirect wholly-owned subsidiary of the Company, entered into an agreement pursuant to which Alfa Com Technology and Alfa Com Cyber agreed to sell and e-Applications agreed to purchase 49% of the entire issued share capital of Alfacom Web Development Limited (now known as Smart Universe Technology (Hong Kong) Limited) for a consideration of HK\$19,110,000. The transaction was completed on 20 February 2001.

- (c) On 31 May 2001, World Pioneer Limited ("WPL"), being 100% beneficially owned by Dr. Pang Hiu-Ming who is a director of e2 Bio Tech Advisory Group Limited, an indirect wholly-owned subsidiary of the Company, e2-Capital Venture Limited ("e2-Capital Venture"), Dr. Li Chan Kwong, Ivan and Dr. Pang Hiu-Ming entered into a subscription agreement pursuant to which e2-Capital Venture agrees to subscribe for the floating rate unsecured convertible notes in denominations of US\$200,000 to be issued by WPL in the principal sum of US\$1,000,000 (approximately HK\$7,800,000) (the "Note"). The Note provides the right but not the obligation for e2-Capital Venture to convert 100% of the face value of the Note, together with the outstanding interest, into fully-paid shares of WPL for US\$3 per share. The transaction was completed on 31 May 2001.

In the opinion of the directors of the Company, the above transactions were carried out on normal commercial terms and in the ordinary course of business.

**SUBSEQUENT EVENTS**

Details of significant events are set out in note 34 to the accounts.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules.

## AUDIT COMMITTEE

The written terms of reference which describe the authorities and duties of the Audit Committee were prepared and adopted with reference to “A Guide for the Formation of an Audit Committee” published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors of the Company, namely Mr. Ongpin Roberto V and Mr. Chung Cho Yee, Mico.

The Audit Committee had reviewed the annual report of the Company for the year ended 31 December 2001 with the Board prior to recommending the same to the Board for approval.

## AUDITORS

PricewaterhouseCoopers were appointed as auditors of the Company in place of the retiring auditors, Deloitte Touche Tohmatsu, at the annual general meeting of the Company held on 1 June 2001 to hold office until the conclusion of the next annual general meeting at a remuneration to be fixed by the directors.

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Fung Ka Pun**  
*EXECUTIVE CO-CHAIRMAN*

**Wong Sin Just**  
*EXECUTIVE CO-CHAIRMAN*

26 March 2002