

# Directors' Report

The directors have pleasure in presenting to shareholders their annual report together with the audited financial statements for the year ended 31st December, 2001.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and trading. The activities of its principal subsidiaries and associates are set out in notes 50 and 51 respectively to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 17.

An interim dividend of 1.5 cents per share amounting to HK\$7,654,000 was paid to the shareholders during the year. Subject to the approval of shareholders at the forthcoming annual general meeting, the board of directors of the Company (the "Board") now recommend the payment of a final dividend of 2.5 cents per share to the shareholders on the register of members on 5th June, 2002, thus giving rise to a final dividend distribution amounting to HK\$12,744,000 and a retention of HK\$12,340,000 as the remaining profit for the year.

## 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 on page 61.

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

All of the Group's investment properties were revalued at 31st December, 2001. The revaluation resulted in a decrease over book values amounting to HK\$12,910,000, which has been debited directly to the investment property revaluation reserve.

During the year, a property under development in the People's Republic of China ("PRC") was completed and an amount of HK\$148,739,000 was transferred to investment properties. Moreover, a freehold land and building in Canada with a net book value of HK\$14,222,000 was transferred to investment properties due to the change of management intention. In addition, the Group is still in the development of the second phase of its investment properties in the United States of America ("USA").

Apart from the above movements, the Group also expended approximately HK\$15,762,000 in tools, moulds and equipment and approximately HK\$8,038,000 in furniture, fixtures and office equipment during the year.

Details of these and other movements during the year in investment properties and property, plant and equipment of the Group and the Company are set out in notes 18 and 19 respectively to the financial statements.

## MAJOR PROPERTIES

Details of the major properties and property interests of the Group at 31st December, 2001 are set out on pages 62 to 64 of the annual report.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital and outstanding share options of the Company are set out in note 34 to the financial statements.

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

During the year, the Company repurchased certain of its own shares through the Stock Exchange of Hong Kong Limited, details of which are set out in note 34 to the financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

## DIRECTORS

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

### Executive directors

Dr. Yung Yau (*Chairman*)  
 Mr. Billy Yung Kwok Kee (*Group Managing Director*)  
 Madam Yung Ho Wun Ching  
 Mr. Leung Chun Wah  
 Mr. Plato Poon Chak Sang  
 Mr. Nicholas Yang Wei Hsiung

### Non-executive director

Mr. Simon Yung Kwok Choi

### Independent non-executive directors

Cav Gr Cr, Dr. Leo Tung-Hai Lee, GBS, OBE,  
 Chev Leg d'Hon, Comm Leopold II, LLD, JP  
 Mr. Shiu-Kit Ngai, SBS, OBE, JP

In accordance with Article 103 of the Company's Articles of Association, Dr. Leo Tung-Hai Lee, Mr. Shiu-Kit Ngai and Mr. Nicholas Yang Wei Hsiung shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Each non-executive director is subject to retirement by rotation in accordance with the Company's Articles of Association.

## DIRECTORS' INTERESTS

### (a) Shares

At 31st December, 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of ordinary shares beneficially owned			
	Personal interests	Family interests	Corporate interests	Other interests
Dr. Yung Yau	93,285,000	3,200,000	–	156,000,000 (Note 1)
Mr. Billy Yung Kwok Kee	41,004,000	–	2,200,000	156,000,000 (Note 1) 10,412,000 (Note 3)
Dr. Leo Tung-Hai Lee	300,000	–	–	–
Madam Yung Ho Wun Ching	3,200,000 (Note 2)	93,285,000 (Note 2)	–	156,000,000 (Note 1)
Mr. Leung Chun Wah	1,799,400	–	–	–
Mr. Plato Poon Chak Sang	739,200	–	–	–
Mr. Nicholas Yang Wei Hsiung	350,000	–	–	–
Mr. Simon Yung Kwok Choi	18,666,000	–	–	–

Notes:

1. These shares are held by a trust for the benefit of Dr. Yung Yau, Mr. Billy Yung Kwok Kee and Madam Yung Ho Wun Ching.
2. The shares held by Madam Yung Ho Wun Ching under her family interests and personal interests are in fact the same shares included under the personal interests and family interests respectively of Dr. Yung Yau.
3. These shares are held by a trust for the benefit of Mr. Billy Yung Kwok Kee.

**(b) Disclosure of other interest**

- (i) Certain directors held shares in subsidiaries as trustees for the Company.
- (ii) During the year, the Group's wholly owned subsidiary, Extra-Fund Investment Limited, entered into securities trading transactions with Tung Tai Securities Co., Ltd. of which the Group's independent non-executive director, Dr. Leo Tung-Hai Lee is both a director and a substantial shareholder. The transactions were conducted on an arm's length basis and gave rise to a broker's commission for approximately HK\$255,000 for the year ended 31st December, 2001.
- (iii) On an arm's length basis, Full Revenue Inc., a 100% owned subsidiary of the Group, acquired a motor vehicle during the year from a company controlled by Mr. Billy Yung Kwok Kee, director of the Company, at a consideration of HK\$180,000.
- (iv) During the year, Dr. Yung Yau, the Chairman of the Group, and Mr. Billy Yung Kwok Kee, the Managing Director of the Group, through companies controlled by them held 625,000 and 2,750,892 preferred stock at par value of US\$0.01 each respectively, convertible promissory note (with warrant attached) in the value of US\$200,000 each respectively and common stock purchase warrant for subscription of 300,000 shares of common stock at an exercise price per share of US\$1.00 each respectively in Neutility Corp. Neutility Corp. is a company in which the Group held certain preferred stock, convertible promissory note (with warrant attached) and common stock purchase warrant for subscription of common stock. In addition, the two companies controlled by Dr. Yung Yau and Mr. Billy Yung Kwok Kee had provided US\$40,000 each to the Company to facilitate the Company issuing a standby letter of credit to a bank for granting certain banking facilities to Neutility (HK) Ltd., a wholly owned subsidiary of Neutility Corp. As at 31st December, 2001, both Dr. Yung Yau and Mr. Billy Yung Kwok Kee had ceased to control the companies previously controlled by them.

Other than as disclosed above, none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors nor their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## SHARE OPTION SCHEME

Under the terms of the share option scheme (the "Scheme") which was adopted on 18th April, 1994 and will expire on 18th April, 2004, the Board may offer to any directors or full time employees of the Company or any of its subsidiaries, as an incentive scheme, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options. The exercisable period will be determined by the Board and in any event not exceeding a period of 3 years commencing on the expiry of 6 months after the date of acceptance by the grantee and expiring on the last date of such period or 17th April, 2004 whichever is earlier. The grantee is required to pay non-refundable consideration of HK\$1.00 upon acceptance of the offer.

The number of shares issuable under the Scheme is not to exceed 10% of the issued share capital of the Company from time to time excluding any shares issued pursuant to the Scheme. At the date of this report, the total number of options available for issue under the Scheme amounted to 4,668,083 which represented 0.95% of the issued share capital of the Company (excluding any shares issued pursuant to the Scheme) at the same date.

The aggregate of the number of shares issued under the options granted to an employee and the number of shares to be issued under the options subsisted and unexercised for the time being held by the same employee should not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The following table discloses directors' personal interests and employees' interests in share options to subscribe for shares in the Company:

	Period during which options are exercisable	Subscription price per share HK\$	Number of share options		
			As at 1.1.2001	Lapsed during the year	As at 31.12.2001
Category 1: Directors					
Dr. Yung Yau	28.01.2001 – 27.07.2003	1.38	1,072,000	–	1,072,000
	28.07.2001 – 27.07.2003	1.38	1,072,000	–	1,072,000
	28.01.2002 – 27.07.2003	1.38	1,072,000	–	1,072,000
	28.07.2002 – 27.07.2003	1.38	1,072,000	–	1,072,000
	28.01.2003 – 27.07.2003	1.38	1,340,000	–	1,340,000
Mr. Billy Yung Kwok Kee	28.07.2000 – 27.07.2003	1.38	1,072,000	–	1,072,000
	28.01.2001 – 27.07.2003	1.38	1,072,000	–	1,072,000
	28.07.2001 – 27.07.2003	1.38	1,072,000	–	1,072,000
	28.01.2002 – 27.07.2003	1.38	1,072,000	–	1,072,000
	28.07.2002 – 27.07.2003	1.38	1,072,000	–	1,072,000
	28.01.2003 – 27.07.2003	1.38	1,340,000	–	1,340,000
Dr. Leo Tung-Hai Lee	28.07.2000 – 27.07.2003	1.38	96,000	–	96,000
	28.01.2001 – 27.07.2003	1.38	96,000	–	96,000
	28.07.2001 – 27.07.2003	1.38	96,000	–	96,000
	28.01.2002 – 27.07.2003	1.38	96,000	–	96,000
	28.07.2002 – 27.07.2003	1.38	96,000	–	96,000
	28.01.2003 – 27.07.2003	1.38	120,000	–	120,000
Mr. Shiu-Kit Ngai	28.07.2000 – 27.07.2003	1.38	80,000	–	80,000
	28.01.2001 – 27.07.2003	1.38	80,000	–	80,000
	28.07.2001 – 27.07.2003	1.38	80,000	–	80,000
	28.01.2002 – 27.07.2003	1.38	80,000	–	80,000
	28.07.2002 – 27.07.2003	1.38	80,000	–	80,000
	28.01.2003 – 27.07.2003	1.38	100,000	–	100,000
Madam Yung Ho Wun Ching	28.01.2001 – 27.07.2003	1.38	800,000	–	800,000
	28.07.2001 – 27.07.2003	1.38	800,000	–	800,000
	28.01.2002 – 27.07.2003	1.38	800,000	–	800,000
	28.07.2002 – 27.07.2003	1.38	800,000	–	800,000
	28.01.2003 – 27.07.2003	1.38	1,000,000	–	1,000,000
Mr. Leung Chun Wah	28.07.2000 – 27.07.2003	1.38	120,000	–	120,000
	28.01.2001 – 27.07.2003	1.38	120,000	–	120,000
	28.07.2001 – 27.07.2003	1.38	120,000	–	120,000
	28.01.2002 – 27.07.2003	1.38	120,000	–	120,000
	28.07.2002 – 27.07.2003	1.38	120,000	–	120,000
	28.01.2003 – 27.07.2003	1.38	150,000	–	150,000
Mr. Plato Poon Chak Sang	28.07.2000 – 27.07.2003	1.38	120,000	–	120,000
	28.01.2001 – 27.07.2003	1.38	120,000	–	120,000
	28.07.2001 – 27.07.2003	1.38	120,000	–	120,000
	28.01.2002 – 27.07.2003	1.38	120,000	–	120,000
	28.07.2002 – 27.07.2003	1.38	120,000	–	120,000
	28.01.2003 – 27.07.2003	1.38	150,000	–	150,000
Mr. Nicholas Yang Wei Hsiung	28.07.2000 – 27.07.2003	1.38	80,000	–	80,000
	28.01.2001 – 27.07.2003	1.38	80,000	–	80,000
	28.07.2001 – 27.07.2003	1.38	80,000	–	80,000
	28.01.2002 – 27.07.2003	1.38	80,000	–	80,000
	28.07.2002 – 27.07.2003	1.38	80,000	–	80,000
	28.01.2003 – 27.07.2003	1.38	100,000	–	100,000
Total number of share options held by directors			19,628,000	–	19,628,000

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	Period during which option are exercisable	Subscription price per share HK\$	Number of share options		
			As at 1.1.2001	Lapsed during the year	As at 31.12.2001
Category 2: Employees	28.07.2000 – 27.07.2003	1.38	752,000	(68,000)	684,000
	26.11.2000 – 25.11.2003	1.38	48,000	–	48,000
	28.01.2001 – 27.07.2003	1.38	1,020,000	(68,000)	952,000
	26.05.2001 – 25.11.2003	1.38	48,000	–	48,000
	28.07.2001 – 27.07.2003	1.38	1,020,000	(68,000)	952,000
	26.11.2001 – 25.11.2003	1.38	48,000	–	48,000
	28.01.2002 – 27.07.2003	1.38	1,020,000	(68,000)	952,000
	26.05.2002 – 25.11.2003	1.38	48,000	–	48,000
	28.07.2002 – 27.07.2003	1.38	1,020,000	(68,000)	952,000
	26.11.2002 – 25.11.2003	1.38	48,000	–	48,000
	28.01.2003 – 27.07.2003	1.38	1,275,000	(85,000)	1,190,000
	26.05.2003 – 25.11.2003	1.38	60,000	–	60,000
Total number of share options held by employees			6,407,000	(425,000)	5,982,000
Total number of share options granted			26,035,000	(425,000)	25,610,000

No option has been granted to or exercised by any of the option holders during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of ordinary shares
Herald Rich Company Limited ( <i>Note a</i> )	156,000,000
Dr. Yung Yau ( <i>Note b</i> )	93,285,000
Mr. Billy Yung Kwok Kee ( <i>Note c</i> )	53,616,000

Notes:

- (a) The 156,000,000 shares held by Herald Rich Company Limited were disclosed in the Directors' interests above as being held under a trust for the benefit of Dr. Yung Yau, Mr. Billy Yung Kwok Kee and Madam Yung Ho Wun Ching.
- (b) The 93,285,000 shares held by Dr. Yung Yau were disclosed in the Directors' interests above.
- (c) The 53,616,000 shares held by Mr. Billy Yung Kwok Kee were disclosed in the Directors' interests above.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2001.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Except for the share option scheme granted to the directors pursuant to the Scheme as disclosed under the heading "Share Option Scheme" 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 debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

On 19th December, 2001, the Company acquired 10% equity interest in Quickjay Management Limited ("Quickjay"), a 90% owned subsidiary of the Company, from a company controlled by Mr. Billy Yung Kwok Kee, the director of the Company, and settled the corresponding amount due by the Company and Quickjay to this related company, at an aggregate consideration of approximately HK\$17,913,000.

Other than disclosed above, 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.

## CONNECTED TRANSACTION

In the opinion of the Directors, including the independent non-executive directors, purchases during the year totalling HK\$51,195,000 in respect of raw materials made by Shell & Shinsho Company Limited ("Shell & Shinsho"), a 70% owned subsidiary of the Company, from Shinsho Corporation of Japan which owns the remaining 30% of Shell & Shinsho, were:

- (i) conducted on normal commercial terms;
- (ii) in the ordinary and usual course of business of the Group;
- (iii) fair and reasonable so far as the shareholders of the Company as a whole were concerned; and
- (iv) within the limit in that the aggregate value of these purchases was less than 3% of the consolidated net tangible assets as shown in the Group's audited accounts as at 31st December, 2000.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## MAJOR SUPPLIERS AND CUSTOMERS

For the financial year ended 31st December, 2001, the five largest suppliers of the Group accounted for approximately 60% of the total purchases of the Group, of which 23% was attributable to the largest supplier and the five largest customers accounted for approximately 53% of the total sales of the Group's turnover, of which 38% was attributable to the largest customer.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in the share capital of any of the five largest suppliers.

## DONATIONS

During the year, the Group made charitable and other donations totalling HK\$2,214,000.

## AUDITORS

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

On behalf of the Board

**YUNG YAU**

*Chairman of the Board*

Hong Kong, 18th April, 2002