

DIRECTORS' REPORT

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. It also provides corporate management services.

The principal activities of the Company's principal subsidiaries as at 31 December 2001, together with their details, are set out in note 41 to the financial statements. During the year ended 31 December 2001, the Group disposed of certain interests in a non wholly-owned subsidiary. Details of this disposal are set out in note 31 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 25 of the annual report and in the accompanying notes to the financial statements. No dividend was paid by the Company during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 85% of the turnover of the Group and the largest customer accounted for approximately 70% of the turnover of the Group while the five largest suppliers in aggregate accounted for approximately 78% of the purchases of the Group and the largest supplier accounted for approximately 46% of the purchases of the Group.

At no time during the year did a director, an associate of a director (within the meaning of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the Company's consolidation of shares, open offer and placement of shares and other movements in the Company's share capital during the current year are set out in note 26 to the financial statements.

DIRECTORS' REPORT

RESERVES AND DEFICIT

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

DIRECTORS

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

Executive directors:

Peter Francis AMOUR - Chairman

Sir Keith BRIGHT - Vice Chairman

Malcolm PATON

LEUNG Shek Kong

CHAN Wing Ming, Charles (resigned on 6 December 2001)

Non-executive directors:

TSAO Kwang Yung, Peter, C.B.E., C.P.M.

Thomas CHIA *

Edward MILWARD-OLIVER *

* Independent non-executive

In accordance with Clauses 87(1) and 87(2) of the Company's Bye-laws, Sir Keith BRIGHT and Mr Thomas CHIA retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office for each of the non-executive directors is the period from the date of appointment up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2001, the interests of the directors and their associates in the securities of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

Name of Director	Number of shares held	
	Personal interests	Corporate interests
Peter F AMOUR	—	87,537,367 (note)
Malcolm PATON	1,391,201	—
LEUNG Shek Kong	2,086,804	—
Thomas CHIA	240,000	—

Note: 87,537,367 shares were held by Suncorp Partners Limited, a company incorporated in the British Virgin Island, in which Mr Peter F AMOUR has the effective voting power under the SDI Ordinance.

Save as disclosed above and other than certain nominee shares in subsidiaries held in trust for the Group, at 31 December 2001, none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations within the meaning of the SDI Ordinance, and none of the directors, or their spouses or children under the age of eighteen, had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

DIRECTORS' REPORT

SHARE OPTIONS

(I) Options to employees

Pursuant to a share option scheme of the Company adopted on 19 April 1994 (the "1994 Scheme") and another share option scheme of the Company adopted on 7 September 1999 (the "1999 Scheme"), the board of directors of the Company may, at their discretion, grant options to any employees of the Company and its subsidiaries, including executive directors of any of such companies, to subscribe for shares in the Company for the primary purpose of providing incentives to directors and eligible employees.

The subscription price of the option shares shall be a price to be determined by the directors of the Company being not less than 80% of the average of the closing prices of the Company's shares traded on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of the Company, whichever is higher.

The options under the 1994 Scheme can be exercised at any time subject to certain restrictions contained in the offer letters, within a period of ten years commencing from the date of adoption of the 1994 Scheme.

The options under the 1999 Scheme could be exercised at any time subject to certain restrictions contained in the offer letter, within a period of three years commencing on the date falling twelve months after the date of acceptance of an option. Pursuant to an ordinary resolution passed in a special general meeting held on 13 July 2001, the option period was modified. The options under the 1999 Scheme can now be exercised within a period of four years commencing on the date of acceptance of an option.

The maximum number of shares in respect of which options may be granted under both schemes shall not exceed 10% of the issued share capital of the Company from time to time.

(II) Options to Suncorp Partners Limited

During the prior period, the Company granted options to Suncorp Partners Limited entitling Suncorp Partners Limited to subscribe for a total sum of HK\$7,500,000 for option shares at a subscription price of HK\$0.05 per option share, subject to adjustment, at any time within three years from 10 September 1999. During the prior period, 40,000,000 option shares were exercised.

The number and exercise price of the share options to Suncorp Partners Limited were adjusted to HK\$0.428 as a result of the share consolidation and the open offer of shares in the Company on 4 June 2001 and 21 June 2001 respectively, as set out in note 26 to the financial statements.

During the year, 9,894,659 share options were exercised after the adjustment in the exercise price. The closing price of the Company's shares immediately before 21 June 2001, the date of exercise, was HK\$0.345.

DIRECTORS' REPORT

SHARE OPTIONS (continued)

(III) Options to Somerley Limited and its nominees

During the prior period, the Company granted options to Somerley Limited and its nominees, independent investors, entitling Somerley Limited and its nominees to subscribe for a total of 100,000,000 option shares at a subscription price of HK\$0.213 per option share, subject to adjustment, at any time on or before 31 March 2001. No options were exercised during both year/period and all outstanding options were lapsed on 31 March 2001.

At 31 December 2001, the number of shares in respect of which options had been granted under the above four schemes was 19,412,908, representing 7% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the four schemes is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

DIRECTORS' REPORT

SHARE OPTIONS (continued)

The following table discloses movements in the Company's share options during the year:

Notes	Option type	Date of grant	Exercise price HK\$	Balance at 1.1.2001	Cancelled/ lapsed during the year before adjustment	Adjustment (Note a)	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year after adjustment	Balance at 31.12.2001
Category 1: Directors										
Peter F AMOUR	(a) 1999 Scheme	June 2000	0.567	16,000,000	—	(13,600,000)	—	—	—	2,400,000
Sir Keith BRIGHT	(a) 1999 Scheme	June 2000	0.567	2,000,000	—	(1,700,000)	—	—	—	300,000
Malcolm PATON	(a) 1994 Scheme	June 1997	14.333	5,328,000	—	(4,528,800)	—	—	—	799,200
	(a) 1999 Scheme	June 2000	0.567	15,900,000	—	(13,515,000)	—	—	—	2,385,000
LEUNG Shek Kong	(a) 1994 Scheme	June 1997	14.333	5,328,000	—	(4,528,800)	—	—	—	799,200
	(a) 1999 Scheme	June 2000	0.567	15,000,000	—	(12,750,000)	—	—	—	2,250,000
CHAN Wing Ming, Charles*	(a) 1999 Scheme	June 2000	0.567	15,000,000	—	(12,750,000)	—	—	(2,250,000)	—
				<u>74,556,000</u>	<u>—</u>	<u>(63,372,600)</u>	<u>—</u>	<u>—</u>	<u>(2,250,000)</u>	<u>8,933,400</u>
Category 2: Employees										
	(a) 1994 Scheme	June 1997	14.333	2,367,998	—	(2,012,798)	—	—	—	355,200
	(a) 1999 Scheme	January 2000	1.579	4,000,000	—	(3,400,000)	—	—	—	600,000
	(a) 1999 Scheme	June 2000	0.567	22,070,000	(700,000)	(18,164,500)	—	—	(2,287,500)	918,000
	(a) 1999 Scheme	July 2000	0.567	17,210,000	(880,000)	(13,880,500)	—	—	(46,500)	2,403,000
	(a) 1999 Scheme	September 2000	0.567	1,000,000	—	(850,000)	—	—	(150,000)	—
	(a) 1999 Scheme	October 2000	0.567	11,890,000	(250,000)	(9,894,000)	—	—	(58,500)	1,687,500
	(a) 1999 Scheme	November 2000	0.567	400,000	—	(340,000)	—	—	—	60,000
	(b) 1999 Scheme	June 2001	0.434	—	—	—	1,500,000	—	—	1,500,000
				<u>58,937,998</u>	<u>(1,830,000)</u>	<u>(48,541,798)</u>	<u>1,500,000</u>	<u>—</u>	<u>(2,542,500)</u>	<u>7,523,700</u>
Category 3: Others										
	(a) & (c) Options to Suncorp Partners Limited	September 1999	0.428	110,000,000	—	(97,149,533)	—	(9,894,659)	—	2,955,808
	Options to Somerley Limited and its nominees	January 2000	0.213	100,000,000	(100,000,000)	—	—	—	—	—
				<u>210,000,000</u>	<u>(100,000,000)</u>	<u>(97,149,533)</u>	<u>—</u>	<u>(9,894,659)</u>	<u>—</u>	<u>2,955,808</u>
Total of all categories				<u>343,493,998</u>	<u>(101,830,000)</u>	<u>(209,063,931)</u>	<u>1,500,000</u>	<u>(9,894,659)</u>	<u>(4,792,500)</u>	<u>19,412,908</u>

* Resigned on 6 December 2001

The closing price of the Company's shares immediately before 5 June 2001, the date of grant, was HK\$0.45.

DIRECTORS' REPORT

SHARE OPTIONS (continued)

Notes:

- (a) The number and exercise price of the share options granted were adjusted as a result of the share consolidation and the open offer of shares in the Company on 4 June 2001 and 21 June 2001 respectively, as set out in note 26 to the financial statements. The exercise prices shown above represent the adjusted exercise price as at 31 December 2001.
- (b) Consideration of HK\$1 was received by the Company for options granted during the current year.
- (c) The options are held by Suncorp Partners Limited in which Mr Peter F AMOUR has the effective voting power under the SDI Ordinance.

The fair value of the options granted in the current year totalled approximately HK\$300,000. The following significant assumptions were used to derive the fair value, using the Black Scholes option pricing model:

- 1) an expected volatility of 58% based on historical volatility;
- 2) no annual dividends based on historical dividends;
- 3) an estimated expected life of the options granted during 2001 is four year; and
- 4) a risk-free interest rate of 4.81% based on the Hong Kong Exchange Fund Notes interest rate at the date the options were granted.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of historical data.

The Black Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognized in the income statement in respect of the value of options granted in the year.

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 debentures, of the Company or any other body corporate.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, as at 31 December 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the persons who were, directly or indirectly, interested in 10% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Number of shares held
Suncorp Partners Limited	87,537,367

Save as disclosed above, the directors are not aware of any other persons having an interests in shares representing 10% or more of the issued capital of the Company.

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

As at 31 December 2001, the guarantees given by the Group to banks in respect of banking facilities granted to a jointly controlled entity amounted to approximately HK\$76,263,000.

The balance sheet of the above jointly controlled entity, which is extracted from its unaudited management accounts, at 31 December 2001 is as follows:

	Balance sheet
	HK\$'000
Non-current assets	190,183
Current assets	70,032
Current liabilities	(624,202)
Non-current liabilities	(4,067)
	<hr/>
	(368,054)
	<hr/> <hr/>
Group's attributable interests	—
	<hr/> <hr/>

Details of the jointly controlled entity are set out in note 16 to the financial statements.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the year, members of the Group entered into the following transactions which were "connected transactions" as defined by the Listing Rules.

The loans of HK\$1,408,000 and HK\$2,015,000 due to Mr LEUNG Shek Kong and Mr Peter F AMOUR respectively, which were outstanding at 31 December 2000, were either fully repaid or eliminated on disposal of a subsidiary during the year.

Save as disclosed above:

- (i) no contracts of significance subsisted at any time during the year 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; and
- (ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

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

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

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

On behalf of the Board

Peter F AMOUR

Chairman

Hong Kong, 15 April 2002