

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

### Principal activities

The Company is an investment holding company. The subsidiaries are principally engaged in the trading and manufacturing of plastic and chemical products, distribution and installation of building supplies, electrical and mechanical products, wholesaling of electrical appliances, engineering contracting business in the air-conditioning industry and the provision of maintenance services, and property and investment holding. Details of the principal subsidiaries and their activities are set out in note 15 to the financial statements.

In September 2001, the Group acquired the entire issued share capital of Best Treasure Limited ("Best Treasure") for a cash consideration of HK\$9.9 million. Best Treasure and its subsidiaries are principally engaged in the wholesaling of electrical appliances, engineering contracting business in the air-conditioning industry and the provision of maintenance services.

Prior to the acquisition, Best Treasure was a wholly-owned subsidiary of Chinney Investments, Limited which is a substantial shareholder of the Company. Accordingly, the acquisition constitutes a connected transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Further details of the transaction are set out in note 34 to the financial statements.

### Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

### Results and dividends

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 78.

The directors do not recommend the payment of any dividend in respect of the year (2000: Nil).

### Management discussion and analysis

#### Liquidity and financial resources

Total interest bearing debts of the Group at year-end amounted to HK\$164 million (2000: HK\$167 million), of which HK\$24 million related to the newly acquired business during the year. Approximately 89% of the debts were due and repayable within one year.

The cash resources of the Group were largely applied for reduction of debts and for investment purpose. Total cash on hand dropped from HK\$140 million as at 31 December 2000 to HK\$62 million as at 31 December 2001. The Group had a total of HK\$149 million committed but undrawn banking facilities at year-end available for its working capital purpose.

## Management discussion and analysis *(Continued)*

### Liquidity and financial resources *(Continued)*

The shareholders' funds of the Group diminished as a result of the economic downturn affecting the performance of our subsidiaries and associates and provisions for impairment loss of the Group's assets. The gearing ratio of the Group, as measured by the net interest bearing debts of HK\$102 million over the shareholders' funds of HK\$180 million, was 57% as at 31 December 2001.

### Share placement

As announced on 8 January 2002, the Company enlarged its share capital by placing 550 million new shares to a substantial shareholder at a price of HK\$0.025 each. The cash proceeds of HK\$13 million generated from the placement are intended to be used for loan repayment and working capital purposes. Further details of the transaction are set out in note 38 to the financial statements.

### Use of placement proceeds

As disclosed in last year annual report, there were remaining cash proceeds of HK\$106 million from shares placed during 1999, which usage has been altered from the purpose of investing in technology and telecommunication related business to the purpose of applying for loan repayment and working capital of the Group. During the year, the Group utilised HK\$60 million for loan repayment and working capital purposes and HK\$20 million for further investing in subsidiary and associated companies. The remaining proceeds of HK\$26 million were retained as cash and bank balances in the accounts, which would be utilised for loan repayment and working capital.

### Funding and treasury policy

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group.

### Pledge of assets

Certain properties, investment in securities and debts due from the investee companies having an aggregate book value of HK\$62 million as at 31 December 2001 were pledged to secure borrowings of the Group.

### Contingent liabilities

A provision of HK\$21 million was made during the year to cover the probable liabilities arising from guarantee for banking facilities granted to an associate of the Group. Apart from this, there have been no material changes to the contingent liabilities of the Group since 31 December 2000.

## Management discussion and analysis (Continued)

### Employees and remuneration policies

The Group employed approximately 330 staff in Hong Kong and other parts of the PRC as at 31 December 2001. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff. A share option scheme was adopted in 1993 to enable the directors to grant share options to selected employees as incentives.

### Business and operation review

A detailed review of the Group's business operations and outlook is included in the Chairman's Statement.

### Summary of financial information

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

#### Results

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
TURNOVER	<b>687,671</b>	614,189	812,603	1,505,340	2,045,374
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	<b>(129,052)</b>	(22,552)	(236,321)	(300,624)	(367,817)

#### Assets, liabilities and minority interests

	As at 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
TOTAL ASSETS	<b>480,040</b>	590,347	604,655	602,195	2,241,232
TOTAL LIABILITIES	<b>(298,324)</b>	(292,291)	(257,053)	(549,966)	(1,912,561)
MINORITY INTERESTS	<b>(1,797)</b>	(1,503)	(1,446)	(861)	(2,458)
NET ASSETS	<b>179,919</b>	296,553	346,156	51,368	326,213

The tables set out above do not form part of the audited financial statements.

### Fixed assets

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

### Share capital and share options

Details of the Company's share capital and movements in the Company's share options during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

### 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.

### Purchase, redemption or sale of the Company's listed shares

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

### Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

### Distributable reserves

Under the laws of Bermuda, the Company's share premium account, in the amount of HK\$554,756,000, may be distributed in the form of fully paid bonus shares. Other than the share premium account, the Company did not have any reserves available for distribution to shareholders as at 31 December 2001.

### Major customers and suppliers

Both the aggregate amounts of turnover and purchases attributable to the Group's five largest customers and suppliers for the year were less than 30% of the Group's total turnover and purchases, respectively.

## Directors

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

### Executive directors:

James Sai-Wing Wong (*Chairman*)

Barry John Buttifant (resigned on 7 April 2001)

Stephen Sek-Kee Yu

Frank Kwok-Kit Chu

Peter Chi-Chung Luk (appointed on 1 January 2001)

### Non-executive directors:

Herman Man-Hei Fung

Kenneth Kin-Hing Lam

Robert Ti (resigned on 12 September 2001)

Koc-Tie Chan (resigned on 28 June 2001)

James Chu-Hong Wang (resigned on 12 September 2001)

### Independent non-executive directors:

Aubrey Kwok-Sing Li

William Gage McAfee

In accordance with the Company's Bye-law 87, Herman Man-Hei Fung and Frank Kwok-Kit Chu retire by rotation and, being eligible, offer themselves for re-election.

## Biography of directors

Biographical details of the directors of the Company are set out on pages 9 to 11 of the annual report.

## Directors' service contracts

No director has a service contract with any member of the Group which is not determinable within one year without payment other than statutory compensation.

## Directors' interests in contracts

Except as disclosed in note 34 to the financial statements, none of the directors had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## Directors' interests in the shares of the Company

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

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>
James Sai-Wing Wong	Corporate ( <i>Note</i> )	801,957,982
Frank Kwok-Kit Chu	Personal	1,206,000
	Family	1,196,000
Peter Chi-Chung Luk	Family	320,000
Kenneth Kin-Hing Lam	Personal	276

*Note:*

These shares are held by Multi-Investment Group Limited, a company in which James Sai-Wing Wong is a director and has a beneficial interest.

Other than the holdings disclosed above, no interests were held or deemed or taken to be held (under the SDI Ordinance) by any director of the Company or their respective associates in any equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein.

## Share option scheme

On 24 September 1993, an Executive Share Option Scheme (the "Scheme") was approved by the shareholders of the Company (as amended by the shareholders of the Company on 28 June 2001), under which the directors of the Company may, at its discretion, offer any employee (including any director) of the Company or of any of its subsidiaries, options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. The summary terms and particulars of outstanding options under the Scheme are made pursuant to the requirements as contained in Chapter 17 of the Listing Rules.

## Share option scheme *(Continued)*

### Summary of the Scheme

(a) Purpose of the Scheme

The purpose of the Scheme is to attract and retain high calibre employees, and to motivate them to higher level of performance.

(b) Participants of the Scheme

The Board may, at its discretion, grant to any employees (including any director) of the Company or of any of its subsidiaries, options to subscribe for the Company's shares.

(c) Maximum number of shares available for issue under the Scheme

The maximum number of the shares in respect of which options may be granted under the Scheme will be such number of shares, when aggregated with shares already subject to any other share option schemes of the Company, as shall represent 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares issued pursuant to the Scheme). As at the date of this annual report, there are 244,600,598 shares available for issue pursuant to options that may be granted, which represents approximately 7.4% of the existing issued share capital of the Company.

(d) Maximum entitlement to any one participant

Under the Scheme, no options may be granted to any one employee which if exercised in full would result in the total number of the Company's shares already issued and issuable to him under all the options granted to him exceeding 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Scheme.

(e) Period and payment on acceptance of options

Under the Scheme, the offer of an option to acquire shares must be accepted in writing in such manner as the Board may prescribe within 14 days from the date of offer and upon payment of a nominal consideration of HK\$1 in total by the participant to the Company, and such consideration shall not be refundable.

### Share option scheme *(Continued)*

- (f) Period within which the shares must be taken up under an option

For those options granted on or before 28 June 2001, the exercise period of options shall be ten years from the date of grant. The number of options that can be exercised is restricted to a maximum of 20% of the shares comprised in the option in the first year from the date of grant and the threshold is increased progressively by 20% in each year until 100% in the fifth year from the date of grant.

For those options granted after 28 June 2001, an option may be exercised in whole or in part at any time during an exercise period ranging from two years to five years from the date of grant as specified by the Board in each grant.

- (g) The basis of determining the exercise price

The exercise price of the options is determined by the Board and will not be less than the higher of (i) the nominal value of the Company's shares; and (ii) an amount not less than 80% of the average closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date on which the offer to grant an option.

- (h) Remaining life of the Scheme

The Scheme is valid until 23 September 2003.

The Stock Exchange of Hong Kong Limited amended the requirements for share option schemes under the Listing Rules, which came into effect on 1 September 2001. As a transitional arrangement, the Company must comply with these new requirements before further options can be granted under the Scheme. The Company is currently evaluating the impact and will propose amendments to the Scheme or adopt a new scheme in due course.



## Share option scheme (Continued)

Details of options granted to employees under the Scheme were as follows:

	Date of options granted	Exercise price per share HK\$	Exercise period of share options	Outstanding options as at 1 January 2001 and 31 December 2001
<b>Directors</b>				
Stephen Sek-Kee Yu	1 June 1994	0.78	1 June 1994 to 31 May 2004	1,000,000
	22 December 1995	0.78	22 December 1995 to 21 December 2005	500,000
	7 June 1997	0.78	1 June 1994 to 31 May 2004	500,000
	7 June 1997	0.78	22 December 1995 to 21 December 2005	250,000
	16 July 1999	0.07	16 July 1999 to 15 July 2009	12,000,000
				14,250,000
Frank Kwok-Kit Chu	9 June 1994	0.78	9 June 1994 to 8 June 2004	800,000
	7 June 1997	0.78	9 June 1994 to 8 June 2004	400,000
	13 July 1999	0.07	13 July 1999 to 12 July 2009	8,000,000
				9,200,000
Peter Chi-Chung Luk	12 July 1999	0.07	12 July 1999 to 11 July 2009	4,000,000
				4,000,000
Herman Man-Hei Fung	13 July 1999	0.07	13 July 1999 to 12 July 2009	8,000,000
				8,000,000

## Share option scheme (Continued)

	Date of options granted	Exercise price per share HK\$	Exercise period of share options	Outstanding options as at 1 January 2001 and 31 December 2001
<b>Directors (Continued)</b>				
Kenneth Kin-Hing Lam	2 June 1994	0.78	2 June 1994 to 1 June 2004	800,000
	8 January 1996	0.78	8 January 1996 to 7 January 2006	800,000
	7 June 1997	0.78	2 June 1994 to 1 June 2004	400,000
	7 June 1997	0.78	8 January 1996 to 7 January 2006	400,000
	21 July 1999	0.07	21 July 1999 to 20 July 2009	8,000,000
				10,400,000
<b>Continuous contract employees</b>				
In aggregate	4 June 1994	0.78	4 June 1994 to 3 June 2004	225,000
	10 June 1994	0.78	10 June 1994 to 9 June 2004	555,000
	27 December 1995	0.78	27 December 1995 to 26 December 2005	180,000
	2 January 1996	0.78	2 January 1996 to 1 January 2006	225,000
	16 July 1999	0.07	16 July 1999 to 15 July 2009	4,000,000
	19 July 1999	0.07	19 July 1999 to 18 July 2009	4,000,000
				9,185,000
<b>Total</b>				<b>55,035,000</b>

## Share option scheme *(Continued)*

During the year, options to subscribe for 36,450,000 shares of the Company were lapsed/cancelled upon the resignation of certain directors of the Company. The details are set out as follows:

	<b>Number of share options</b>	<b>Exercise price per share</b> <i>HK\$</i>
Barry John Buttifant	30,000,000	0.11
Robert Ti	1,950,000	0.78
Koc-Tie Chan	4,500,000	0.78
	<b>36,450,000</b>	

No options were granted by the Company nor exercised by the option holders during the year.

Apart from the aforesaid, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Substantial shareholders

Shown below are the names of all parties which were directly or indirectly interested in 10% or more of the issued share capital of the Company, together with the number of shares in which they were and/or were deemed to be interested as at 31 December 2001, which were required to be recorded in the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of shareholding</b>
James Sai-Wing Wong	801,957,982	29.1%
Madeline May-Lung Wong	801,957,982	29.1%
Lucky Year Finance Limited	801,957,982	29.1%
Chinney Holdings Limited	801,957,982	29.1%
Chinney Investments, Limited	801,957,982	29.1%
Newsworthy Resources Limited	801,957,982	29.1%
Multi-Investment Group Limited	801,957,982	29.1%
DMT Corporation S.A.	325,800,000	11.8%
Dharmala International Limited ("DIL")	325,800,000	11.8%
Hanvit Leasing and Finance Company, Limited	319,800,000	11.6%
CBK Leasing & Finance (HK) Limited	319,800,000	11.6%
Credit Suisse First Boston International	319,800,000	11.6%
Krung Thai Bank Public Company Limited	319,800,000	11.6%
P.T. Bank Mandiri (Persero)	319,800,000	11.6%

## Substantial shareholders *(Continued)*

For the avoidance of double counting, it should be noted that in accordance with Sections 8(2), (3) and (4) of the SDI Ordinance:

- James Sai-Wing Wong, Madeline May-Lung Wong, Lucky Year Finance Limited, Chinney Holdings Limited, Chinney Investments, Limited and Newsworthy Resources Limited are deemed to be interested in the same parcel of 801,957,982 shares held by Multi-Investment Group Limited by virtue of their respective interest in that company;
- DMT Corporation S.A. is deemed to be interested in the 325,800,000 shares held by DIL by virtue of its interest in that company. Out of the 325,800,000 shares beneficially owned by DIL, 319,800,000 shares are registered in the name of an agent bank on behalf of six banks that comprise a syndicate of lenders to DIL (the “Syndicate”); and
- The Syndicate’s interest in these 319,800,000 shares was acquired as a result of security given by DIL over such shares in respect of a loan advanced to DIL by the Syndicate. CBK Leasing & Finance (HK) Limited, Credit Suisse First Boston International, Krung Thai Bank Public Company Limited and P.T. Bank Mandiri (Persero) are present members of the Syndicate and the other members of the Syndicate are not required to make any disclosure in respect of these shares in accordance with Section 14(4) of the SDI Ordinance, which provides an exemption from such disclosure for authorised financial institutions. Hanvit Leasing and Finance Company, Limited is deemed to be interested in the 319,800,000 shares held by CBK Leasing & Finance (HK) Limited by virtue of its interest in that company.

## Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 38 to the financial statements.

## Code of best practice

In the opinion of the directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the year, except that non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation in accordance with the Company’s Bye-laws.

## Audit committee

The Company has established an audit committee comprising Herman Man-Hei Fung, a non-executive director, Aubrey Kwok-Sing Li and William Gage McAfee, both independent non-executive directors in compliance with paragraph 14 of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls.

### Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board  
**Peter Chi-Chung Luk**  
*Director*

Hong Kong, 17 April 2002