

Directors' Report

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 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 22 on the financial statements.

The analysis of the principal activities and geographical locations of the Group's operations during the financial year are set out in notes 3 and 20 on the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	sales	purchases
The largest customer	13%	
Five largest customers in aggregate	38%	
The largest supplier		25%
Five largest suppliers in aggregate		52%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5 per cent. of the Company's share capital) had any interest in these major customers and suppliers.

Financial Statements

The loss of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 25 to 67.

Dividends

No dividends will be payable for the year (2000: HK\$nil paid).

Fixed Assets

Details of additions and other movements in fixed assets of the Group and the Company during the financial year are set out in note 21 on the financial statements.

Reserves

Movements in reserves of the Group and the Company during the year are set out in note 36 on the financial statements.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group and the Company as at 31 December 2001 are set out in notes 30 to 32 on the financial statements.

Five Year 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 68 and 69 of the annual report.

Directors

The directors during the financial year were:

Executive directors:

Lau Tai Ming, Eddy	
Lim Huat Joo	(appointed on 16 July 2001)
Christopher Coulcher	(resigned on 28 February 2002)
Claude Jaeck	(resigned on 3 April 2002)
Sng Lai Kee	(resigned on 16 July 2001)

Independent non-executive directors:

Gerald Dobby
Wu Sai Wing

The following directors were appointed after the end of financial year:

Executive directors:

Yau Tak Wah, Paul	(appointed on 4 March 2002)
Louie Mei Po	(appointed on 4 March 2002)
Wong Shin Ling, Irene	(appointed on 4 March 2002)
Tam Wing Kin	(appointed on 4 March 2002)
Tam Ping Wah	(appointed on 4 March 2002)

Independent non-executive directors:

Kwong Wai Tim, William	(appointed on 4 March 2002)
Hahn Ka Fai, Mark	(appointed on 4 March 2002)

In accordance with Article 103(A) of the Company's Articles of Association, all of the directors shall retire from office. The retiring directors shall be eligible for re-election.

Directors' Service Agreements

Save as disclosed below, no director proposed for re-election at the forthcoming annual general meeting has a service agreement with any member of the Group which is not terminable within one year without payment of compensation (other than statutory compensation).

Mr. Christopher Coulcher, the Managing Director, renewed his service agreement on 12 November 1998 with the Company and his personal company, Performax Limited, for Mr. Coulcher to act as Managing Director of the Company. The said service agreement would thereafter continue unless and until terminated by the Company giving to Performax Limited not less than six months' notice or by Performax Limited giving to the Company six months' notice or such period of time as is mutually agreed between both parties. Mr. Coulcher acted as the Managing Director until 28 February 2002 at which time he resigned from the Company.

Mr. Claude Jaeck acted as the Marketing and Sales Director of the Company under a service agreement dated 15 April 1999 with the Company. The said service agreement would thereafter continue unless and until terminated by the Company giving to Mr. Jaeck twelve months' notice or by Mr. Jaeck giving to the Company three months' notice. Mr. Jaeck acted as the Marketing and Sales Director until 3 April 2002 at which time he resigned from the Company.

Mr. Lau Tai Ming, Eddy acts as the Finance Director and Company Secretary of the Company under a service agreement dated 29 July 1998 with the Company and was amended on 12 November 1998. On 4 March 2002, Mr. Lau was appointed as Chief Operating Officer and resigned as Company Secretary of the Company. The said service agreement will thereafter continue unless and until terminated by the Company giving to Mr. Lau twelve months' notice or by Mr. Lau giving to the Company three months' notice. The agreement is not for a fixed term.

Mr. Lim Huat Joo acts as Executive Director – Manufacturing of the Company under a service agreement dated 14 July 2001 with the Company. The said service agreement will thereafter continue unless and until terminated by the Company giving to Mr. Lim twelve months' notice or by Mr. Lim giving to the Company six months' notice. The agreement is not for a fixed term.

Mr. Sng Lai Kee was initially employed as General Manager – Manufacturing by the Company in September 1998 and was subsequently appointed as Executive Director – Manufacturing under a service agreement dated 1 July 2000 with the Company. The said service agreement would thereafter continue unless and until terminated by either party giving to the other party not less than six months' notice. Mr. Sng acted as the Executive Director – Manufacturing until 16 July 2001 at which time he resigned from the Company.

Directors' Interest in Contracts

In the opinion of the directors, no contract of significance to which the Company or any of its subsidiaries was a party, 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' Interest in Shares

One of the directors who held office at 31 December 2001 had the following interests in the issued share capital of the Company at that date as recorded in the register as required under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") :

	Number of shares	
	Personal interests	Corporate interests
Christopher Coulcher	1,982,000	—

Save as disclosed above and other than shares in subsidiaries held by the directors in trust for the Company, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the directors or their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Share Option Scheme

On 28 June 1996, the Company adopted an employee share option scheme ("Scheme") under which the Company may grant options to the directors and employees of the Company and its subsidiaries to subscribe up to 10 per cent. of the share capital of the Company in issue from time to time, excluding any shares issued pursuant to the exercise of options granted under the Scheme. Details of the Scheme are set out in note 35 on the financial statements.

No share options have been granted under the Scheme as at 31 December 2001.

Substantial Interests in the Share Capital of the Company

As at 31 December 2001 according to the register of interests required to be kept under section 16(1) of the SDI Ordinance, the shareholders who were interested in 10 per cent. or more of the issued share capital of the Company were as follows :

	Ordinary shares held	Percentage of total issued shares
Optiset Limited (note i & ii)	373,342,850	51
William E. Simon & Sons (Asia) Ltd.	94,118,950	13

Notes:

- (i) Although Optiset Limited ("Optiset") held 51% of the Company's ordinary shares as at 31 December 2001, the directors consider that it was not the Company's holding company, nor was there an ultimate holding company as such, for the reason that Optiset was only a vehicle through which the individual bank creditors could hold the Company's shares and convertible notes in aggregate.
- (ii) Subsequent to the balance sheet date, on 1 March 2002, Optiset's interest in the Company was transferred to Probest Holdings Inc. (note 41 on the financial statements).

Purchase, Sale or Redemption of Securities

There was no purchase, sale or redemption of shares or other securities of the Company by the Company or its subsidiaries during the year.

Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

Hanmy (Holding) Limited and its related companies (collectively "Hanmy")

The Group continues its legal proceedings against Hanmy to recover the amounts owed by Hanmy to the Group of approximately HK\$96.3 million. Whilst the Group has not yet obtained a court judgement due to Hanmy's defence, the Group will continue to vigorously pursue legal proceedings on legal advice. The Group has fully provided for these debts as the directors consider it is uncertain whether the debts will be recovered following the conclusion of the legal proceedings.

Litigation Against Mr. Lam Yin Sang and Ms. Chan Hoi Wo

On 15 July 1999, with the approval of the Board of Directors, the Group instigated legal proceedings against Mr. Lam Yin Sang and Ms. Chan Hoi Wo, for losses of HK\$479 million sustained as a result of various alleged breaches of fiduciary and other duties while acting formerly as directors of the Group.

Subsequent to this, Mr. Lam Yin Sang was declared bankrupt by the Court. In light of this, the directors continue to review the position with legal advisors so appropriate actions can be taken. Whilst Ms. Chan Hoi Wo has contested the Group's claim, the Group will continue to vigorously pursue legal proceedings on legal advice.

Post Balance Sheet Events

Details of the significant post balance sheet events are set out in note 41 on the financial statements.

Audit Committee

The audit committee comprises two independent non-executive directors (Mr. Gerald Dobby and Mr. Wu Sai Wing) and reports to the board of directors. The audit committee meets with the Group's senior management regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group.

Auditors

KPMG will retire at the forthcoming Annual General Meeting and do not offer themselves for re-appointment. A resolution for the appointment of new auditors of the Company for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board
Gerald Dobby
Chairman

Hong Kong, 19 April 2002