

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries and principal associates are set out in notes 14 and 18 to the financial statements, respectively.

There were no changes in the nature of the Group's principal activities during the year.

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 profit 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 16 to 61.

An interim dividend of 0.18 HK cents per ordinary share (after adjusting for the effect of the 2001 interim bonus issue of shares distributed on 20 November 2001) was distributed to the Company's shareholders on 20 November 2001. The directors recommend the payment of a final dividend of 0.25 HK cents per ordinary share in respect of the year, to shareholders whose name appeared on the register of members on 21 June 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

BONUS ISSUES OF SHARES

A bonus issue of shares of the Company (the "Interim Bonus Shares") of HK\$0.10 each, credited as fully paid by way of capitalisation of the Company's contributed surplus account, on the basis of one bonus share for every ten existing shares, were allotted to the Company's shareholders on 20 November 2001. The Interim Bonus Shares rank *pari passu* in all respects with the existing shares of the Company, except that they are not entitled to the interim dividend in respect of the year ended 31 December 2001.

The directors recommend a bonus issue of shares of the Company (the "Final Bonus Shares") of HK\$0.01 each, credited as fully paid by way of capitalisation of the Company's contributed surplus account, on the basis of one bonus share for every five existing shares, to the shareholders whose names appeared on the register of members of the Company on 21 June 2002. The nominal value of each of the issued and unissued shares in the capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each following the capital reduction subsequent to the balance sheet date on 17 April 2002. Further details of the capital reduction are included in note 32 to the financial statements. The Final Bonus Shares to be issued will rank *pari passu* in all respects with the existing shares except that they will not rank for the proposed final dividend in respect of the year ended 31 December 2001.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results of the Group for the four years ended 31 December 2001, the combined results of the Group for the year ended 31 December 1997 and the consolidated assets and liabilities of the Group for the last four financial years. The information has been extracted from the audited financial statements of the companies now comprising the Group, after appropriate adjustments and reclassifications, as if the current structure of the Group had been in existence throughout these financial years and has been prepared using the merger basis of accounting as a result of the Group reorganisation for its public listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 1998. The amounts for each year in the summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends and negative goodwill, as detailed in note 2 to the financial statements. The Company was incorporated on 14 February 1997, therefore, the first published audited consolidated balance sheet of the Group was as at 31 December 1998. The summary of the combined results of the Group for the year ended 31 December 1997 has been extracted from the Company's prospectus dated 17 July 1998.

RESULTS

	Year ended 31 December				
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> <i>(Restated)</i>	1999 <i>HK\$'000</i> <i>(Restated)</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Turnover	110,891	113,425	131,307	239,200	355,716
Operating profit	34,274	16,548	47,458	110,673	172,687
Share of profits/(losses) of associates	4,703	(22,226)	(1,612)	(66)	(6)
Profit/(loss) before tax	38,977	(5,678)	45,846	110,607	172,681
Tax	(4,940)	(7,771)	(12,775)	(9,976)	(15,550)
Profit/(loss) before minority interests	34,037	(13,449)	33,071	100,631	157,131
Minority interests	(13,618)	(10,619)	(11,540)	(16,438)	(74,105)
Net profit/(loss) attributable to shareholders	20,419	(24,068)	21,531	84,193	83,026

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> <i>(Restated)</i>	1999 <i>HK\$'000</i> <i>(Restated)</i>	1998 <i>HK\$'000</i> <i>(Restated)</i>
Total assets	1,944,340	2,014,814	2,140,416	2,154,006
Total liabilities	(972,691)	(974,893)	(976,235)	(890,354)
Minority interests	(318,045)	(336,299)	(358,726)	(363,312)
	653,604	703,622	805,455	900,340

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 62 to 64.

PROPERTIES HELD FOR SALE

Details of the Group's properties held for sale are set out in note 19 to the financial statements. Further details of the Group's properties held for sale are set out on pages 62 to 64.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 26 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 SECURITIES

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

RESERVES

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

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company's reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$579,313,000. During the year, the Company's contributed surplus in the amount of HK\$80,819,000 were distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total sales and 30% of the Group's total purchases for the year, respectively.

DIRECTORS

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

Executive Directors:

Mr. Lau Chi Yung, Kenneth
 Mr. Tsang Pak Chung, Eddy
 Mr. Lau Chi Kei, Michael
 Mr. Luu Duc Chi, Kevin
 Mr. Cho Po Hong, Jimmy

Non-executive Directors:

Mr. Tong Wui Tung, Ronald

Independent Non-executive Directors:

Mr. Lee Siu Man, Ervin
 Mr. Choy Tak Ho

In accordance with the Company's bye-laws, Mr. Lau Chi Kei, Michael and Mr. Tsang Pak Chung, Eddy will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 6 to 7 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a period of three years from 1 June 1998 which will continue thereafter unless and until terminated by either party with three months' prior notice in writing.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements, no director had a significant beneficial interest in any contract of significance to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 December 2001, the interests of the directors and chief executives and their associates in the securities of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("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, were as follows:

Interests in the Company's shares

Name of director	Nature of interest	Number of shares
Mr. Lau Chi Yung, Kenneth	Corporate	<u>1,939,520,000</u>

The above shares are ultimately controlled by Power Resources Holdings Limited as the trustee of the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr. Lau Chi Yung, Kenneth and his sisters and their respective families.

Mr. Lau Chi Yung, Kenneth indirectly controlled more than one-third of the issued share capital of the Company and accordingly he is deemed to have interests in the share capital or registered capital of the subsidiaries and associates of the Group.

In addition to the above, a director has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors, chief executives or their associates had any interest in the share capital of the Company and its associated corporations recorded in the register required to be kept under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' and chief executives' interests in the securities of the Company and its associated corporations" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the executive directors and other employees of the Group. The Scheme became effective on 10 July 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

SHARE OPTION SCHEME *(continued)*

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time (except shares issued upon exercise of options granted pursuant to the Scheme). As there were no share options being granted since the establishment of the Scheme, there were no shares issuable under share options granted under the Scheme as at 31 December 2001. The maximum number of shares in respect of which options may be granted to any participant together with any shares issued in respect of options which have been exercised by them and any shares which would be issued upon exercise of outstanding options granted to them shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme. The share options may be exercised in accordance with the terms of the Scheme at any time during the period to be determined and notified by the board of directors to each grantee, and in any event such period of time should expire no later than the last day of ten years from the date of adoption of the Scheme, i.e. 10 July 1998.

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors.

The exercise price of the share options is determinable by the board of directors, but may not be less than the higher of (i) the nominal value of the shares; and (ii) 80% of the average Stock Exchange official closing price of the Company's shares for the five trading days immediately preceding the date on which the options are granted to the participant.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, the following shareholders had notified the Company of a direct or indirect interest in 10% or more of the issued share capital of the Company:

	Number of shares held
Power Resources Holdings Limited #	1,939,520,000
Lucky Speculator Limited	<u>1,829,520,000</u>

Power Resources Holdings Limited was deemed to have a beneficial interest in 1,939,520,000 ordinary shares of the Company by virtue of its indirect interests through Lucky Speculator Limited and a wholly-owned subsidiary which held shares in the Company.

Apart from the foregoing, no person, other than Mr. Lau Chi Yung, Kenneth, who is a director of the Company and whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 32 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange, throughout the accounting period covered by the annual report, except that the 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 and re-election at the annual general meeting of the Company, in accordance with the provisions of the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three non-executive directors of the Company.

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

Lau Chi Yung, Kenneth

Chairman

Hong Kong

19 April 2002