

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 31 December 2001.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 12 to the accounts. An analysis of the Group's performance for the year by business segments is set out in note 2 to the accounts. No geographical segment of the Group's performance is presented as less than 10% of the Group's turnover and operating results were generated from operation outside Hong Kong.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 19.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$20,000.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

Share capital and convertible notes

Details of the movements in share capital and convertible notes of the Company are set out in note 21 to the accounts.

Distributable reserves

At 31 December 2001, the distributable reserves of the Company available for distribution as dividend amounted to HK\$83,756,000, representing the contributed surplus of HK\$213,978,000 after compensating the accumulated losses of HK\$130,222,000. Under the Company Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable ground for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due or;
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium accounts.

Five year financial 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 page 52.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Directors

The Directors during the year were:

Executive Directors:

Mr. Chan Yuk Sang

Ms. Chu Ming Tak Evans Tania

(appointed on 2 January 2001)

Mr. Fong Yock Yee

Mr. Tsang Chiu Ching

Mr. Tsang Chiu Mo Samuel

Independent Non-Executive Directors:

Mr. Szeto King Pui Albert

Mr. Yu Yun Kong

(appointed on 2 January 2001)

In accordance with Bye-Law 87 of the Company's Bye-laws, all Directors retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

Directors' service contracts

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

Biographical details of Directors

Brief biographical details of Directors are set out below.

Executive Directors:

Mr. Chan Yuk Sang, aged 57, is the Chairman and Managing Director of the Group since September 1999. Mr. Chan has over 30 years of experience in banking and finance industry. He is responsible for the strategic planning, corporate development and investment related activities for the Group. Mr. Chan is currently an independent non-executive director of Four Seas Mercantile Holdings Limited - a listed company in the Stock Exchange and a director of China Sky Finance Limited.

Prior to joining the Group, Mr. Chan served as a senior general manager of a local bank until November 1998, a director of a listed company in Hong Kong from 1993 to 1995 and an executive director of a joint Chinese-foreign bank in Shenzhen until 1995.

REPORT OF THE DIRECTORS (cont'd)

Biographical details of Directors (cont'd)

Executive Directors: (cont'd)

Ms. Chu Ming Tak Evans Tania, aged 44, joined the Group in 1999 and was appointed Executive Director in January 2001. She is responsible for overseeing the Group's financial and investment related activities.

Ms. Chu received her tertiary education in Canada. Prior to joining the Group, she had more than 10 years of experience working in the financial field of various commercial enterprises both in Hong Kong and Canada.

Mr. Fong Yock Yee, aged 75, was appointed Executive Director in September 1999. Mr. Fong has over 40 years of experience in garment industry in both Hong Kong and the People's Republic of China (the "PRC"). He is responsible in providing consultancy services to the Group regarding the garment business. Mr. Fong is also the director of two garment manufacturing companies, the Honorary Chairman of Hong Kong Tsuen Wan Industries and Commerce Association Limited, a director of Hong Kong Kwun Tong Industries and Commerce Association Limited and a Honorary Citizen of Zhongshan Municipality of the PRC. He was the chairman and is now the Advisory Board Vice-chairman of Yan Chai Hospital.

Mr. Tsang Chiu Ching, aged 26, brother of the Company's Executive Director, Mr. Tsang Chiu Mo Samuel, was appointed Executive Director in September 1999. He is responsible for evaluation and implementation of business development strategies, as well as investment activities. Mr. Tsang is also a director of Centrey Legend Limited, a substantial shareholder of the Company as well as a director of China Sky Finance Ltd.

Before joining the Group, Mr. Tsang worked in a finance company responsible for corporate finance functions, direct investments and project financing.

Mr. Tsang Chiu Mo Samuel, aged 29, brother of the Company's Executive Director, Mr. Tsang Chiu Ching, was appointed Executive Director in September 1999. He is responsible for the Group's strategic planning, business development and corporate finance portfolio. Mr. Tsang is a director of Century Legend Limited, a substantial shareholder of the Company as well as a director of China Sky Finance Limited.

Mr. Tsang received his tertiary education in Canada. Prior to joining the Group, he has gained broad experience working with international firms in building construction, hotel management, financing and strategic gained investment.

Independent Non-Executive Directors

Mr. Szeto King Pui Albert, aged 47 was appointed an Independent Non-Executive Director in January 2000. He is also the Company's secretary.

Mr. Szeto is qualified solicitor in England and Wales and Hong Kong and a partner of Chiu, Szeto and Cheng Solicitors in Hong Kong.

Mr. Yu Yun Kong, aged 35, was appointed an Independent Non-Executive Director in January 2001.

He is a partner of C. W. Leung & Co., Certified Public Accountants with over 12 years of experience in public accounting practice. Mr. Yu is also an associate member of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants.

Directors' interests in contracts

Mr. Szeto King Pui Albert is a partner of Chiu, Szeto & Cheng Solicitors, a firm of solicitors in Hong Kong which provides legal and professional services to the Group and receives normal professional fees for such services.

Save as disclosed above, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company 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.

Directors' interests in equity or debt securities

At 31 December 2001, the interests of the Directors and Chief Executives in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name	Number of shares in the Company beneficially held			
	Personal interest	Corporate interest	Family interest	Other interest
Mr. Tsang Chiu Ching	960,000	(note 1 & 2)	–	–
Mr. Tsang Chiu Mo Samuel	–	(note 1, 2 & 3)	–	–

Notes:

- 868,389,900 shares were held by Century Legend Limited ("Century Legend"), which is owned as to 5% by Mr. Tsang Chiu Ching and 5% by Mr. Tsang Chiu Mo Samuel respectively.
- 204,114,700 shares were deemed to be held by China Sky Finance Limited ("China Sky") by virtue of a Share Charge dated 6 December 1999 made between China Sky as chargee and Century Legend as chargor whereby Century Legend charged to China Sky by way of first fixed charge all of Century Legend's present and future right, title and interest in and to 204,114,700 shares in the Company. China Sky is 100% beneficially owned by Mr. Tsang Chiu Mo Samuel and Mr. Tsang Chiu Ching equally. Mr. Chan Yuk Sang, Mr. Tsang Chiu Mo Samuel and Mr. Tsang Chiu Ching are directors of China Sky.
- On 18 October 2001 Mr. Ng Kwan ("Mr. Ng") and Madam Fu Cheng Wai ("Madam Fu") entered into an option agreement ("Option Agreement") with Mr. Tsang Chiu Mo Samuel ("Mr. Tsang") pursuant to which Mr. Ng and Madam Fu each agreed to grant certain call options ("Call Options") to Mr. Tsang and Mr. Tsang agreed to grant to each of Mr. Ng and Madam Fu certain put options ("Put Options").

Originally, the options were exercisable at any time from the date of the Option Agreement and prior to 17 April 2002. By way of a supplemental agreement dated 16 April 2002 ("Supplemental Agreement"), the expiration date was extended to 17 April 2003.

Pursuant to the Option Agreement and the Supplemental Agreement, Mr. Tsang has the right to require each of Mr. Ng and Madam Fu to sell to him (or his nominee) 390,775,455 shares of the Company ("Company Option Shares") at a total consideration of HK\$10,160,161.83, equivalent to HK\$0.026 per Company Option Share.

Mr. Tsang also has the right to require each of Mr. Ng and Madam Fu to sell to him (or his nominee) their respective interests in 22,500 shares in the issued share capital of Century Legend ("CLL Option Shares") for a consideration of HK\$10,160,161.83 payable to each of Mr. Ng and Madam Fu.

Each of Mr. Ng and Madam Fu has the right to require Mr. Tsang to purchase the Company Option Shares from Mr. Ng and Madam Fu for a total consideration of HK\$10,160,161.83, equivalent to HK\$0.026 per Company Option share.

Each of Mr. Ng and Madam Fu also has the right to require Mr. Tsang to purchase the CLL Option Shares from Mr. Ng and Madam Fu for a total consideration of HK\$10,160,161.83, payable to each of Mr. Ng and Madam Fu.

REPORT OF THE DIRECTORS (cont'd)

Directors' interests in equity or debt securities (cont'd)

Both Call Options and Put Options must be exercised prior to 17 April 2003 or any other date as may be agreed by all parties to the Option Agreement and the Supplemental Agreement, after which the Put Options and the Call Options lapse.

Upon exercise of the rights attaching to the Call Options by Mr. Tsang or the Put Options by Mr. Ng and Madam Fu and the completion of the sale and purchase of the Company Option Shares or the CLL Option Shares (as the case may be), Mr. Tsang and parties acting in concert with him will become directly or indirectly interested in approximately 50.5% of the total issued share capital of the Company and may be obliged under the Takeovers Code to make a general cash offer for all the issued shares in the Company not already owned by him and parties acting in concert with him. The Put Options and the Call Options may or may not be exercised.

Save as disclosed above, at no time during the year, the Directors and Chief Executives of the Company (including their spouse and children under 18 years of age) had any interest in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance).

At no time during the year was the Company, its subsidiaries or its holding company a party to any arrangement 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.

Substantial shareholders

At 31 December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of Century Legend Limited and China Sky Finance Limited as disclosed above.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restriction against such rights under the laws of Bermuda.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

The five major customers of the Group were attributable to the money lending business. The five major suppliers of the Group were attributable to travel agency and health and beauty services business. The percentage of the turnover and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Turnover	
– the largest customer	8%
– five largest customers combined	23%
Purchase	
– the largest supplier	91%
– five largest suppliers combined	95%

REPORT OF THE DIRECTORS (cont'd)

Major customers and suppliers (cont'd)

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers and suppliers noted above.

Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rule"), save that the Independent Non-Executive Directors were not appointed for a specific term but subject to retirement by rotation in annual general meetings of the Company in accordance with the Bye-laws of the Company.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's Auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both of the external audit and of internal controls and risk evaluation. The Committee comprises two Independent Non-Executive Directors, namely Mr. Szeto King Pui Albert and Mr. Yu Yun Kong.

Directors' interest in competing business

Set out below is information disclosed pursuant to paragraph 8.10(2) of the Listing Rules:-

Mr. Chan Yuk Sang, Mr. Tsang Chiu Mo Samuel and Mr. Tsang Chiu Ching are the directors of China Sky Finance Limited ("China Sky"). China Sky is 100% beneficially owned by Mr. Tsang Chiu Mo Samuel and Mr. Tsang Chiu Ching equally. The provision of personal and commercial loan service of China Sky constitutes a competing business to the Group.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Chan Yuk Sang
Chairman

Hong Kong, 25 April 2002