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## **DIRECTORS' REPORT**

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The Directors present their annual report and the audited financial statements of the Company from 9th May, 2001 (date of incorporation) to 31st December, 2001 and of the Group for the year ended 31st December, 2001.

### **REORGANISATION AND LISTING ON THE MAIN BOARD (THE "MAIN BOARD") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

The Company was incorporated in Bermuda on 9th May, 2001 as a limited company under the Companies Act 1981 of Bermuda.

In August 2001, the Company and its subsidiaries (the "Group") underwent a group reorganisation (the "Group Reorganisation") to rationalise its structure in preparation for the listing of the Company's shares on the Stock Exchange.

Details of the Group Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in appendix V of the prospectus issued by the Company dated 30th August, 2001 and a summary is set out in note 1 to the financial statements.

The shares of the Company have been listed on the Main Board since 12th September, 2001.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the financial statements.

### **SUBSIDIARIES**

Details of the Company's subsidiaries as at 31st December, 2001 are set out in notes 12 and 34 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 21 of the financial statements.

The directors have resolved to recommend at the 2002 annual general meeting that a final dividend of HK\$0.035 per share (2000: nil per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 21st May, 2002.

### **PROPERTY, PLANT AND EQUIPMENT**

The Group's leasehold land and buildings was revalued at 30th June, 2001 by Vigers Hong Kong Limited, an independent firm of qualified professional valuers, on an open market value basis. The deficit arising on revaluation of HK\$1,604,000 has been charged to the consolidated income statement for the year then ended.

## **DIRECTORS' REPORT**

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### **PROPERTY, PLANT AND EQUIPMENT (Continued)**

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 11 to the financial statements.

### **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements during the year in the share capital of the Company are set out in note 22 to the financial statements.

In accordance with the Company's share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed on 21st August, 2001 for the purpose of recognising the contribution of the senior management and full-time employees of the Group, and will expire on 20th August, 2011. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares of the Company at the subscription price which shall not be less than the higher of the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day and the average closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately proceeding the date of grant.

At 31st December, 2001, the number of shares in respect of which options had been granted under the Scheme was 30,000,000, representing 10% of the shares of the Company in issue at that date. The maximum number of shares in respect of which options may be granted under the Scheme 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.

Options granted must be taken up upon payment of HK\$1 per option. Options may be exercised at any time during the period commencing on the expiry of 6 months after the date of grant of such option and expiring on a date to be determined and notified by the directors, but in any event not later than 10 years from 21st August, 2001 but subject to the early termination of the Scheme.

The fair value of the options granted in the current year measured as at the date of grant on 12th October, 2001 was totalled approximately HK\$6,300,000. The following significant assumptions were used to derive the fair value, using the Black Scholes option pricing model:

1. an expected volatility of 74%;
2. dividend yield of 2.7% and;

## **DIRECTORS' REPORT**

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### **SHARE CAPITAL AND SHARE OPTIONS** (Continued)

- the estimated expected life of the options granted during 2001 is two years. The corresponding two-year Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 2.9%.

For the purposes 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 recognised in the consolidated income statement in respect of the value of options granted in the period.

On 12th October 2001, 30,000,000 options were granted to employees at exercise price of HK\$0.56. The options were exercisable at any time commencing 11th April, 2002 and expiring on 20th August, 2011.

Other than disclosed above, no further movement in share options was noted during the year. At 31st December, 2001, the number of shares in respect of which options had been granted under the Scheme was 30,000,000, representing 10% of the shares of the Company in issue at that date.

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

### **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

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

#### **Executive directors:**

Mr. Wong Pak Ming ( <i>Chairman</i> )	(appointed on 31st May, 2001)
Mr. Wan Ngar Yin, David ( <i>Deputy Chairman</i> )	(appointed on 31st May, 2001)
Ms. Wong Kit Chun, Jenny	(appointed on 31st May, 2001)
Ms. Wong Kit Fong	(appointed on 31st May, 2001)
Mr. Ko Tin Chow	(appointed on 31st May, 2001)

## **DIRECTORS' REPORT**

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### **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS** (Continued)

#### **Independent non-executive directors:**

Mr. Tang Kai Kui, Terence	(appointed on 31st May, 2001)
Mr. Hou Lee Tsun, Laurence	(appointed on 21st March, 2002)
Mr. Wong Hon Ching, San Stephen	(appointed on 31st May, 2001 and resigned on 7th March, 2002)

In accordance with Articles 87(1) and 86(2) of the Company's Bye-laws, Ms. Wong Kit Fong and Mr. Hou Lee Tsun, Laurence will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

Each of the executive directors has entered into a service contract with the Company for an initial term of two years which commenced on 1st September, 2001 and continues thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

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

### **DIRECTORS' INTERESTS IN SECURITIES**

At 31st December, 2001, the interests of the directors, the chief executive and their associates in the securities of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance (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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

<b>Name of director</b>	<b>Type of interest</b>	<b>Number of shares</b>
Mr. Wong Pak Ming ("Mr. Wong")	Corporate ( <i>note 1</i> )	202,200,000
	Others ( <i>note 2</i> )	5,000,000
Mr. Wan Ngar Yin, David	Personal	4,000,000
Ms. Wong Kit Chun, Jenny	Personal	500,000
Ms. Wong Kit Fong	Personal	8,300,000

## **DIRECTORS' REPORT**

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### **DIRECTORS' INTERESTS IN SECURITIES (Continued)**

*Notes:*

1. These shares are held as to 30,000,000 shares by Capeland Holdings Limited and as to 172,200,000 shares by Idea Storm Holdings Limited, both companies are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong beneficially.
2. These shares are beneficially owned by the Mandarin Entertainment Employee Trust (the "Employee Trust") and are held by Mr. Wong in the capacity as trustee of the Employee Trust. The Employee Trust is a discretionary trust set up by Mr. Wong and the discretionary beneficiaries include the employees of the Group from time to time (excluding Mr. Wong and his spouse).

Save as disclosed above, at 31st December, 2001, none of the directors, the chief executive or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Other than the share option scheme of the Company as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

### **SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 2001, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following shareholders had registered an interest in 10% or more of the nominal value of the issued ordinary shares of the Company:

<b>Name of shareholder</b>	<b>Number of ordinary shares held</b>
Mr. Wong	202,200,000 ( <i>Note 1</i> ) 5,000,000 ( <i>Note 2</i> )

*Notes:*

1. These shares are held as to 30,000,000 shares by Capeland Holdings Limited and as to 172,200,000 shares by Idea Storm Holdings Limited, both are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong beneficially.
2. These shares are beneficially owned by the Mandarin Entertainment Employee Trust (the "Employee Trust") and are held by Mr. Wong in the capacity as trustee of the Employee Trust. The Employee Trust is a discretionary trust set up by Mr. Wong and the discretionary beneficiaries include the employees of the Group from time to time (excluding Mr. Wong and his spouse).

Other than as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2001.

## **DIRECTORS' REPORT**

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### **DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS**

During the year, certain transactions that have been entered into by the Group constituted connected transactions under the Listing Rules. Details are set out below:

#### **1. Rental expenses**

During the year, the Group paid rental expenses of HK\$720,000 and HK\$156,000 respectively to Pure Project Limited and Mandarin Recording Studio Limited, in which Mr. Wong has beneficial interests. The rentals are agreed after negotiation between both parties and on the basis of estimated market value as determined by the directors of the Company.

#### **2. Agency fees**

During the year, the Group paid agency fees of HK\$971,000 to 東影影視出品有限公司 (“Tung Ying”). A brother of Mr. Wong has a beneficial interest in this company. The agency fees are charged by Tung Ying at the agreed terms of 10% of the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.

Save as disclosed above, no contract of significance 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, subsisted at the end of the year or at any time during the year.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

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

### **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 with the requirements of the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules for the period between its listing date and 31st December, 2001.

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## **DIRECTORS' REPORT**

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### **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 two existing independent non-executive directors of the Company.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from Tuesday, 14th May, 2002 to Tuesday, 21st May, 2002 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and for attending and voting at the 2002 annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrars of the Company, Standard Registrars Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on Monday, 13th May, 2002.

### **MAJOR CUSTOMERS AND SUPPLIERS**

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for 10% and 34% respectively of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for 17% and 40% respectively of the Group's total purchases for the year.

Save as disclosed above, none of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers.

### **AUDITORS**

Messrs. Deloitte Touche Tohmatsu and Messrs. Tang Leung & Partners were appointed as joint auditors of the Company after its incorporation.

During the year, one of the joint auditors, Messrs. Tang Leung & Partners resigned and Messrs. Deloitte Touche Tohmatsu continues to act as auditors of the Company.

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

On behalf of the Board

**Wong Pak Ming**  
*Chairman*

Hong Kong, 26th March, 2002