

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

■ **PRINCIPAL ACTIVITIES** ■

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant 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 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 of the Group at that date are set out in the financial statements on pages 38 to 90.

The directors do not recommend the payment of any dividends in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities 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. The amounts for 1998, 1999 and 2000 in the five year summary have been adjusted for the effects of the retrospective changes in accounting policy as detailed in note 2 to the financial statements.

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
RESULTS					
Turnover	709,195	1,208,670	534,996	325,016	367,622
Operating profit/(loss)	(48,447)	39,055	33,175	28,214	42,810
Share of loss of an associate	–	–	(65)	(2)	–
Profit/(loss) before tax	(48,447)	39,055	33,110	28,212	42,810
Tax	5,284	(3,189)	(3,048)	(4,143)	(4,271)
Profit/(loss) before minority interests	(43,163)	35,866	30,062	24,069	38,539
Minority interests	353	524	–	–	–
Net profit/(loss) attributable to shareholders	(42,810)	36,390	30,062	24,069	38,539
ASSETS AND LIABILITIES					
		31 December			
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
		(Restated)	(Restated)	(Restated)	
Total assets	594,036	698,558	484,833	224,826	205,856
Total liabilities	(390,390)	(468,388)	(286,717)	(76,376)	(129,258)
Minority interests	(402)	(392)	(619)	–	–
	203,244	229,778	197,497	148,450	76,598

FIXED ASSETS AND INVESTMENT PROPERTY

Details of the movements in the fixed assets and investment property of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$99,111,000. In addition, the Company's share premium account, in the amount of HK\$53,677,000, may be 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 accounted for 35% of the Group's total sales for the year and sales to the Group's largest customer included therein amounted to 15%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Lin Chun Kuei	<i>(Chairman and chief executive officer)</i>
Mr. Kam Wing Leung	<i>(Co-vice chairman)</i>
Dr. Gunter M. Denk	<i>(Co-vice chairman)</i>
Mr. Lin Chun Fu	
Mr. Li Chien Kuan	
Mr. He Jing Guang	
Mr. Guo Yah Taur (alias Peter Ya Tao Kuo)	<i>(The position of Mr. Guo Yah Taur had been changed from independent non-executive director to executive director with effect from 30 March 2001)</i>
Mr. Graeme Stanley Pope	
Mr. Wan Tak Wing, Gary	<i>(Resigned on 31 May 2001)</i>

Non-executive director

Mr. Andree Halim

Independent non-executive directors

Hon. Chan Bernard Charnwut

Mr. Goh Gen Cheung

In accordance with bye-law 111 of the Company's bye-laws, Messrs. Andree Halim, He Jing Guang and Goh Gen Cheung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the non-executive directors but excluding the chairman, the managing director and the vice chairman, 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.

DIRECTORS' SERVICE CONTRACTS

Messrs. Lin Chun Kuei, Lin Chun Fu, Kam Wing Leung and Li Chien Kuan, entered into service agreements with the Company for a term of three years commencing from 1 December 1997, which are renewable automatically for successive terms of one year each, until terminated by not less than six months' notice in writing served by either party on the other.

Dr. Gunter M. Denk, an executive director, has entered into a service agreement with the Company for a term of four years and five months commencing from 23 December 1999, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Mr. He Jing Guang, an executive director, has entered into a service agreement with the Company for a term of one year commencing from 1 May 2000, renewable automatically for successive terms of one year, until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Graeme Stanley Pope, an executive director, has entered into a service agreement with the Company, through a service company beneficially owned by him, for a term of one year commencing from 22 May 2000, renewable automatically for successive terms of one year, until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Guo Yah Taur (alias Peter Ya Tao Kuo), an executive director, has entered into a service agreement with the Company for a term of three years commencing from 30 March 2001, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

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

Apart from the service agreement entered between the Company and a service company beneficially held by an executive director as mentioned in the section "Directors' service contracts" above, no director had a beneficial interest, either direct or indirect, 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 SHARES

As at 31 December 2001, the interests of the directors and their associates in the share capital of the Company or its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Directors	Number of shares held and nature of interest		
	Personal	Family (Note 1)	Corporate (Note 2)
Mr. Andree Halim	–	–	102,300,000
Mr. Lin Chun Kuei	35,873,200	–	–
Mr. Lin Chun Fu	33,690,800	–	–
Dr. Gunter M. Denk	16,760,000	4,364,800	–
Mr. He Jing Guang	8,013,720	–	–

Note 1: 3,273,600 shares and 1,091,200 shares are held by Miss Corinna Denk and Ms. Angelika Denk, daughter under 18 years of age and wife of Dr. Gunter M. Denk, respectively.

Note 2: The 102,300,000 shares are owned by KMP Atlantic Limited, 90% of the issued capital of which is owned by KMP Equities Holding Ltd.. The issued share capital of KMP Equities Holding Ltd. is owned as to 50% by Mr. Andree Halim. Mr. Andree Halim was therefore deemed to be interested in the 102,300,000 shares of the company.

In addition to the above, certain directors hold shares in certain subsidiaries, in a non-beneficial capacity, solely for the purpose of complying with minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations at 31 December 2001, as recorded in the register required to be kept under Section 29 of 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in shares" 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

Under the terms of the Company's share option scheme adopted by the Company on 20 December 1997, the directors of the Company may, at their discretion, invite any employee, including any director, of the Company or any of its subsidiaries to take up options to subscribe for shares of the Company. The subscription price shall be not less than the higher of 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the option or the nominal value of a share. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company (excluding for this purpose any shares which have been duly allotted and issued pursuant to the exercise of any option granted under the scheme). The scheme became effective upon the listing of the Company's shares on the Stock Exchange on 15 January 1998 and will remain in force for a period of 10 years commencing on 12 January 1998, the date of adoption.

The option period of an option may not end later than ten years after the offer date of that option.

No option may be granted to any one eligible employee where the number of shares falling to be issued to him upon the exercise thereof, when aggregated with the total number of shares issued or which would be issued to him upon a prior or subsequent exercise of all other options granted to him, would exceed 25 per cent. of the maximum number of shares that may be issued pursuant to this scheme.

The offer of a grant of share option may be accepted for a period of 21 days from the date of offer. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the offer duly signed by the eligible participant together with the consideration of HK\$1.00 is received by the Company.

SHARE OPTION SCHEME (Continued)

The following options were exercised during the year

Name or category of participant	Number of share options			Date of grant*	Exercise period of share options	Exercise price of share options (HK\$)	Price of Company share at exercise date** (HK\$)
	At 1 January 2001	Exercised during the year	At 31 December 2001				
Employee	18,296,000	18,296,000	–	14 August 1999	3 September 1999 to 30 June 2001	0.4736	0.70

* The vesting period of the Share Options is from the date of the grant until the commencement of the exercise period.

** The price of the Company's shares disclosed as at the date of the exercise of the share options is the closing price of the shares on the Stock Exchange.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account.

Summary details of the Company's share option scheme are also set out in note 28 to the financial statements.

To ensure that options are granted in accordance with the requirements of the new rules of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange, it is proposed to adopt a new share option scheme at the Annual General Meeting to be held on 18 June 2002. Subject to the approval of the shareholders, the existing share option scheme will be terminated and the new share option scheme will be conditionally adopted and come into effect upon the approval from the Stock Exchange in listing of and permission to deal in the shares.

Details of the new share option scheme are set out below:

The purpose of the new share option scheme is to enable the Company to grant options to the eligible participants in recognition of their contribution to the Group.

Subject to the terms of the new share option scheme, the directors may, at their absolute discretion, invite employees of the Group including executive directors, the non-executive directors of the Company or any of its subsidiary, suppliers, consultants, agents and advisers, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) at any time under this scheme shall not, when aggregated with any shares subject to any other schemes involving the issue or grant of option over shares by the Company to, or for the benefit of the eligible participants, exceed such number of shares as shall represent 10 per cent of the issued share capital of the Company as the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with terms of this scheme will not be counted for the purpose of calculating the Scheme Mandate Limit unless the Company obtains a fresh approval from shareholders to renew the 10 per cent. limit provided that the maximum number of shares in respect of which options may be granted under the new share option scheme together with any options outstanding and yet to be exercised under the new share option scheme and any other schemes shall not exceed 30 per cent. of the issued shares from time to time.

The total number of shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of grant of each eligible participant shall not exceed 1 per cent. of the total issued shares.

The offer of a grant of share option may be accepted for a period of 28 days from the date of offer. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the eligible participant together with the consideration of HK\$1.00 is received by the Company.

The exercise price for shares will not be less than the higher of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant.

An option may be exercised at any time during the period to be determined and identified by the board to each grantee at the time of making an offer for the grant of an option, but in any event no later than 10 years from the adoption date but subject to the early termination of the new share option scheme.

■ SUBSTANTIAL SHAREHOLDERS ■

As at 31 December 2001, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16 (1) of the SDI Ordinance:

Name	Number of ordinary shares in which interested	Percentage of total issued ordinary share capital
KMP Atlantic Limited	102,300,000	27.88
KMP Equities Holding Ltd.	102,300,000	27.88
Mr. Anthoni Salim	102,300,000	27.88
Mr. Andree Halim	102,300,000	27.88

Note: KMP Atlantic Limited is owned as to 90% of its issued shares by KMP Equities Holding Ltd. The issued share capital of KMP Equities Holding Ltd. is owned as to 50% by each of Messrs. Anthoni Salim and Andree Halim. Accordingly, the interests disclosed by parties above are in respect of the same shareholding.

Save as disclosed above, the directors are not aware of any person (except those directors as disclosed under the paragraph "Directors' interests in shares" above) who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company as at 31 December 2001 that was required to be recorded under Section 16(1) of the SDI Ordinance.

■ PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY ■

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

■ PRE-EMPTIVE RIGHTS ■

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

COMPLIANCE WITH THE 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the year 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 in accordance with 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 purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent 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

Lin Chun Kuei

Chairman

Hong Kong, 25 April 2002