



The directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 March 2002.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 46 and 47 respectively to the financial statements.

## **RESULTS**

The results of the Group for the year ended 31 March 2002 are set out in the consolidated income statement on page 14.

## **RESERVES**

Movements during the year in the reserves of the Group and the Company are set out in note 33 to the financial statements.

## **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 64.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

## **SHARE CAPITAL AND WARRANTS**

Details of movements during the year in the share capital and outstanding warrants of the Company are set out in notes 31 and 32 respectively to the financial statements.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

There has been no purchase, redemption or sale of shares and warrants of the Company by the Company or any of its subsidiaries during the year.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 March 2002, both the aggregate purchases attributable to the Group's five largest suppliers and the turnover attributable to the Group's five largest customers were less than 30% of the total purchases and turnover respectively.

Messrs. Leung Kwok Wa, Ng Kwun Wan and Ng Tik Hong, who are directors of the Company, are directors of the Group's largest supplier, Yixing United Ceramics Co., Ltd. All transactions between the Group and the supplier concerned have been carried out on normal commercial terms and in the ordinary course of business of the Group.

Save as aforesaid, none of the directors, their associates or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's issued share capital) had any interests in the Group's five largest suppliers.



## DIRECTORS

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

### Executive directors:

Mr. Leung Kwok Wa	
Mr. Ng Kwun Wan	(appointed on 31 January 2002)
Mr. Ng Tik Hong	(appointed on 31 January 2002)
Mr. Ng Sai Hung	(appointed on 8 February 2002)
Mr. Choi Wing Kin	(appointed on 4 May 2001 and resigned on 25 March 2002)
Ms. Siu York Chee	(resigned on 31 January 2002)
Mr. Shiu Yeuk Yuen	(resigned on 31 January 2002)
Mr. Leung Kwok Kui	(resigned on 31 January 2002)
Ms. Li Sau Lin	(resigned on 8 February 2002)

### Independent non-executive directors:

Mr. Cheung Hon Kit	(appointed on 5 February 2002)
Mr. Ng Wai Hung	(appointed on 5 February 2002)
Mr. Hong Po Kui, Martin	(resigned on 5 February 2002)
Mr. Hung Yau Keung, Anckes	(resigned on 5 February 2002)
Mr. Lum Chor Wah, Richard	(resigned on 7 March 2002)

### Non-executive director:

Mr. Wu Wing Kin	(appointed on 4 May 2001 and resigned on 25 March 2002)
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Under the provisions of the Company's Bye-laws, Messrs. Ng Kwun Wan, Ng Tik Hong and Ng Sai Hung, Cheung Hon Kit and Ng Wai Hung retire from the board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

## DIRECTORS' INTERESTS IN SHARES, WARRANTS AND OPTIONS

At 31 March 2002, none of the directors had any interests in the equity or debt securities of the Company or any of its associated corporations.

## SHARE OPTIONS

The Company's share option scheme ("Scheme") was adopted pursuant to a resolution passed on 13 October 1998 and became effective on 24 December 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 27 August 2003. 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 in the Company.



## **SHARE OPTIONS** (continued)

The total number of shares of the Company in respect of which options may be granted under the Scheme is not permitted to exceed 10% in nominal amount of the issued share capital of the Company from time to time less: (i) the aggregate number of shares of the Company which have been duly allotted and issued pursuant to the Scheme; (ii) the number of shares of the Company which would be issued on the exercise in full of the options granted but not exercised on that date pursuant to the Scheme; and (iii) the number of shares of Companion Building Material (Holdings) Limited ("CBM") which have been duly allotted and issued pursuant to the share option scheme of CBM. The shares of CBM were previously listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Pursuant to a scheme of arrangement between CBM and its shareholders, CBM became an indirectly wholly owned subsidiary of the Company and its shares were withdrawn from listing on the Stock Exchange and the shares of the Company are listed on the Stock Exchange with effect from 24 December 1999. The number of shares of the Company in respect of which options may be granted under the Scheme to any eligible employee (together with (i) the number of shares of the Company issued in respect of options of the Company which have been exercised by that eligible employee; (ii) any shares of the Company which would be issued upon the exercise of outstanding options of the Company granted to that eligible employee; and (iii) the number of shares of CBM issued in respect of options of CBM which have been exercised by that eligible employee), is not permitted to exceed 25% of the maximum aggregate number of shares of the Company subject to the Scheme at the time it is proposed to grant the relevant option to such eligible employee.

Consideration to be paid on each grant of option is HK\$10 and an offer for an option must be accepted by the eligible employee not later than 28 days after the offer date of the option. Options granted may be exercised at any time from the date of grant of the share option to the third anniversary of the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the greater of (i) 80% of the average closing price of the Company's shares for the five trading days immediately preceding the offer date of the option; and (ii) the nominal value of the Company's share.

No share options were granted or exercised pursuant to the Scheme during the year. As at 31 March 2002, there were no share options of the Company outstanding.

## **ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES**

At no time during the year was the Company or any of its 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 debentures of, the Company or any other body corporate.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

During the year, the Group entered into certain related party transactions as detailed in note 39 to the financial statements.

Other than as disclosed above, no contracts 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.



## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") showed that the following shareholders had an interest of 10% or more in the share capital of the Company:

Name	Number of shares of the Company	%
Manful Star Group Limited ("Manful")	288,324,133	19.88
Lo Lin Shing, Simon	288,324,133 (Note)	19.88

Note: Mr. Lo Lin Shing, Simon beneficially owns 100% of Manful and is accordingly deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by Manful.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 March 2002.

## CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 March 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") apart from the fact that the non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the Company's Bye-laws.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the law of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## PRACTICE NOTE 19 OF THE LISTING RULES

Details of the advances to, and guarantees given for the benefits of, the Company's affiliated companies by the Group as at 31 March 2002 are as follows:

Name of affiliated companies	Percentage of interest held by the Group %	Advances to affiliated companies HK\$'000	Allowance for amounts due from affiliated companies HK\$'000	Guarantees given for banking facilities granted to affiliated companies HK\$'000	Total (after allowance) HK\$'000
Asean Fortune Corporation	50.0	46,726	(46,726)	–	–
Yixing United Ceramics Co., Ltd. (approximately)	47.6	26,050	(13,274)	10,268	23,044
Kippton Limited	20.0	499	(499)	–	–
		<u>73,275</u>	<u>(60,499)</u>	<u>10,268</u>	<u>23,044</u>



## PRACTICE NOTE 19 OF THE LISTING RULES (continued)

Advances to the affiliated companies are interest free, unsecured and have no fixed repayment term. All banking facilities granted to the affiliated companies under the security of the Group have been fully utilised by the affiliated companies.

The proforma combined balance sheet of the associates as at 31 March 2002, which includes the assets and liabilities of Asean Fortune Corporation, Yixing United Ceramics Co., Ltd. and Kippton Limited, is as follows:

	<b>Balance at 31 March 2002</b>	<b>The Company's attributable interest</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	621,559	176,316
Current assets	57,036	22,445
Current liabilities	(249,633)	(108,262)
Net current liabilities	(192,597)	(85,817)
Non-current liabilities	(113,368)	(24,473)
Minority interests	(163,178)	(32,636)
Shareholders' funds	152,416	33,390

The Group is in breach of a covenant in respect of certain banking facilities and the amount of such banking facilities utilised was approximately HK\$29.7 million as at 31 March 2002, and the Group has confirmed with the bank in principle for the restructuring of the borrowings. The Group also failed to repay certain part of a convertible loan in the outstanding principal sum of approximately US\$11.9 million ("Convertible Loan") and accordingly the whole of the Convertible Loan has become technically repayable on demand. The Convertible Loan has been acquired by Galaxy Time Limited, details of which were disclosed in the announcement of the Company dated 18 February 2002.

## AUDITORS

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

By Order of the Board  
**Leung Kwok Wa**  
*Executive Director*

Hong Kong, 12 July 2002