

### DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st March, 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company and provides corporate management services.

Details of the discontinued operations are set out in note 13 to the financial statements.

The activities of the Company's remaining principal subsidiaries at 31st March, 2002 are set out in note 49 to the financial statements.

### RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 19.

No dividend was paid by the Company during the year. The directors do not recommend the payment of a final dividend for the year.

### RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in note 37 to the financial statements.

In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves of the Company. The Company's reserves available for distribution to the Company's shareholders comprise share premium, capital redemption reserve, contributed surplus, distributable reserve and accumulated losses which in aggregate amounted to HK\$491,141,000 at 31st March, 2002.

### 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 76 of the annual report.

### INVESTMENT PROPERTIES

The investment properties of the Group were revalued at 31st March, 2002 by an independent firm of professional property valuer on an open market value basis at HK\$6,000,000. This valuation gives rise to a deficit of HK\$1,680,000 which has been charged to the consolidated income statement. Details are set out in note 17 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of HK\$27,707,000 for the purpose of expanding the Group's business.

The Group's property, plant and equipment with an aggregate net book value of HK\$44,538,000 was disposed of as a result of disposal of subsidiaries.

Details of these and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 18 to the financial statements.

## PROPERTIES

Particulars of the properties of the Group at 31st March, 2002 are set out on pages 77 and 78.

## SHARE CAPITAL AND WARRANTS

Pursuant to a special resolution at the extraordinary general meeting of the Company held on 27th February, 2001, the issued share capital of the Company was reduced from an amount of HK\$86,559,000 to HK\$8,656,000 by canceling paid up share capital of the Company to the extent of HK\$0.09 on each of the ordinary share in issue so that each issued ordinary share of HK\$0.10 in the share capital of the Company was treated as one fully paid up ordinary share of HK\$0.01 in the share capital of the Company (the "Capital Reduction"). The Capital Reduction was approved and registered to the Cayman Islands' Registrar of Companies on 19th April, 2001.

Pursuant to a share placement agreement entered into on 28th May, 2001, the Company issued 173,118,000 ordinary shares of HK\$0.01 each at a price of HK\$0.12 per share.

On 24th August, 2001, the shareholders of the Company approved to issue, by way of rights issue, of 2,077,416,030 rights shares (the "Right Shares") to the holders of the then existing ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.10 for one Rights Share, on the basis of two Rights Shares for every one then existing ordinary share of the Company.

The rights attached to the warrants of the Company to subscribe for ordinary shares expired on 3rd May, 2001 and all the outstanding warrants were lapsed accordingly.

Details of these and other movements during the year in the share capital and warrants of the Company are set out in notes 34 and 36 to the financial statements, respectively.

## SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Scheme") of the Company adopted on 2nd July, 1999 for the primary purpose of providing incentive to directors and eligible employees, the Company may grant options at HK\$1 for each lot of share options granted under the Scheme to any full time employees, including executive directors, of the Company or its subsidiaries to subscribe for shares in the Company.

Options granted are exercisable for a period to be notified by the board of directors of the Company to each grantee and in any event such period of time shall not exceed a period of ten years commencing on which the option is accepted and shall expire at the end of such ten year period. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time.

The subscription price of the options shall be a price to be determined by the directors of the Company being not less than the nominal value of the ordinary shares of the Company or 80% of the average closing price of the ordinary shares of the Company for the five trading days immediately preceding the date of the offer of the options.

There were no options granted to or exercised by the directors of the Company during the year or outstanding at 31st March, 2002.

Details of movements during the year in the share options granted under the Scheme are set out in note 35 to the financial statements.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Kwong Wai Tim, William (*Managing Director*)

Yau Shum Tek, Cindy

Lai Ming Wai

Terrence Lai

Wang Chun Lin

Chen Peihua

(appointed on 20th June, 2002)

Zhang Ming Yu

(resigned on 23rd January, 2002)

Independent non-executive directors:

Lam Ping Cheung

Kwong Kai Sing, Benny

In accordance with Article 95 of the Company's Articles of Association, Mr. Chen Peihua shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 112 of the Company's Articles of Association, Mr. Lai Ming Wai, Mr. Wang Chun Lin and Mr. Lam Ping Cheung will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The independent non-executive directors are subject to retirement by rotation in accordance with Article 95 and Article 112 of the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has 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**

As at 31st March, 2002, the interests of the directors of the Company and their associates in the securities 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 pursuant to section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (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>Nature of interests</b>	<b>Number of ordinary shares held</b>
Yau Shum Tek, Cindy	Corporate	726,918,000 (Note below)

Note: As at 31st March, 2002, Multiple Wealth International Limited and Pacific Rim Investment Management Enterprises Limited held 192,318,000 ordinary shares and 534,600,000 ordinary shares of the Company, respectively. Multiple Wealth International Limited and Pacific Rim Investment Management Enterprises Limited are wholly-owned subsidiaries of Hastings Gold Limited, which in turn, is a wholly-owned subsidiary of Mainland Talent Developments Limited. Ms. Yau Shum Tek, Cindy wholly owns and controls Red China Holdings Limited and Red China Holdings Limited is interested in 50% of the issued share capital of Mainland Talent Developments Limited. Ms. Yau Shum Tek, Cindy is deemed to be interested in 726,918,000 ordinary shares of the Company held by Multiple Wealth International Limited and Pacific Rim Investment Management Enterprises Limited.

Save as disclosed above, as at 31st March, 2002, none of the directors or their associates had any interests in the securities of the Company or any of its associated corporations within the meaning of the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share option scheme" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements 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 eighteen, had any right to subscribe for the securities of the Company, or had exercised any such rights during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance disclosed the following entities as having an interest of 10% or more of the issued share capital of the Company:

Name of shareholder	Nature of interests	Number of ordinary shares held		Note
		Direct interest	Deemed interest	
Multiple Wealth International Limited	Corporate	192,318,000	—	1
Pacific Rim Investment Management Enterprises Limited	Corporate	534,600,000	—	1
Hastings Gold Limited	Corporate	—	726,918,000	1
Mainland Talent Developments Limited	Corporate	—	726,918,000	1, 2 and 3
Rymer Group Limited	Corporate	—	726,918,000	1 and 2
Red China Holdings Limited	Corporate	—	726,918,000	1 and 3
Lo Ki Yan, Karen	Corporate	—	726,918,000	1 and 2
Yau Shum Tek, Cindy	Corporate	—	726,918,000	1 and 3

Notes:

- As at 31st March, 2002, Multiple Wealth International Limited and Pacific Rim Investment Management Enterprises Limited held 192,318,000 ordinary shares and 534,600,000 ordinary shares of the Company, respectively. Multiple Wealth International Limited and Pacific Rim Investment Management Enterprises Limited are wholly-owned subsidiaries of Hastings Gold Limited, which in turn, is a wholly-owned subsidiary of Mainland Talent Developments Limited.
- Ms. Lo Ki Yan, Karen wholly owns and controls Rymer Group Limited and Rymer Group Limited is interested in 50% of the issued share capital of Mainland Talent Developments Limited. Ms. Lo Ki Yan, Karen is deemed to be interested in 726,918,000 ordinary shares of the Company held by Multiple Wealth International Limited and Pacific Rim Investment Management Enterprises Limited.
- Ms. Yau Shum Tek, Cindy wholly owns and controls Red China Holdings Limited and Red China Holdings Limited is interested in 50% of the issued share capital of Mainland Talent Developments Limited. Ms. Yau Shum Tek, Cindy is deemed to be interested in 726,918,000 ordinary shares of the Company held by Multiple Wealth International Limited and Pacific Rim Investment Management Enterprises Limited.

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

**CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS**

On 17th September, 2001, the Company exercised the put option granted by See Ying Limited ("See Ying") pursuant to a share sale and purchase agreement dated 10th November, 2000 made between the Company and See Ying (the "Put Option"). The exercise of the Put Option required See Ying to purchase the Company's remaining 51% equity interest in Tung Fong Hung Investment Limited ("TFHI") at a consideration of HK\$45,900,000. See Ying was on the date of exercise of the Put Option a substantial shareholder of TFHI holding 49% equity interest in TFHI and the exercise of the Put Option constituted a connected transaction for the Company under Chapter 14 of the Listing Rules. A circular containing details of the transaction was despatched to the shareholders of the Company on 8th October, 2001. The exercise of the Put Option was approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 30th October, 2001 and the disposal of the 51% equity interest in TFHI to See Ying was completed on 2nd November, 2001.

On 19th December, 2000, the Group granted an unsecured loan facility (the "Loan Facility") to the extent of HK\$15,000,000 (the "Loan") to TFHI for a term of nine months. TFHI was at the time of granting the Loan Facility a wholly-owned subsidiary of the Company and since 15th January, 2001 became a non-wholly owned subsidiary of the Company in which no connected person is a substantial shareholder (excluding a person who is connected person by virtue only of its substantial shareholding in TFHI). The purpose of the Loan Facility was to provide working capital to TFHI and it bore interest at prevailing market rate. The outstanding balance of the Loan of HK\$14,711,000 was assigned to an independent third party on 17th July, 2001. Interest income received for the year amounting to HK\$381,000. The granting of the Loan Facility constituted a connected transaction not subject to any disclosure or shareholder approval requirement under Rule 14.24(3) of the Listing Rules at the time it was granted and a connected transaction under Rule 14.25(2)(a) of the Listing Rules for the period from 15th January, 2001 to 17th July, 2001 which is only subject to disclosure requirements in the annual report.

On 13th November, 2001, a wholly-owned subsidiary of the Company entered into an agreement with Ms. Yau Shum Tek, Cindy and Mr. Wang Chun Lin, both are executive directors of the Company, to acquire the entire issued share capital of Joinwell (Shum Chun) Company Limited ("Joinwell") for a total consideration of HK\$630,000. The sole asset of Joinwell is a motor vehicle. Ms. Yau Shum Tek, Cindy and Mr. Wang Chun Lin beneficially owned Joinwell as to 43.33% and 56.67%, respectively, immediately before the completion of the transaction which took place on 11th December, 2001.

Save 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, subsisting at the end of the year or at any time during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases during the year attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total turnover and purchases, respectively.

## PENSION SCHEMES

As at 31st March, 2002, the Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently-administered fund. The Group's employer contributions are contributed into the MPF Scheme in accordance with the rules of the MPF Scheme.

The employer's pension costs charged to the income statement for the year are set out in note 9 to the financial statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed 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 Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 47 to the financial statements.

### AUDITORS

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

On behalf of the Board

**Kwong Wai Tim, William**  
*Managing Director*

Hong Kong, 18th July, 2002