

DIRECTORS' REPORT

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 March 31, 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the principal subsidiaries and associates are set out in notes 35 and 36 respectively to the financial statements.

RESULTS

Details of the Group's results for the year ended March 31, 2002 are set out in the consolidated income statement on page 21 of the annual report.

SHARE CAPITAL

Details of movements in the issued share capital of the Company are set out in note 20 to the financial statements.

RESERVES

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

TANGIBLE FIXED ASSETS

The Group's investment properties were revalued at March 31, 2002 on an open market value basis. A deficit arising on revaluation amounted to HK\$61,020,000 has been charged to the income statement.

Details of these and other movements in the tangible fixed assets during the year are set out in note 11 to the financial statements.

Particulars of the major properties of the Group at March 31, 2002 are set out on page 67 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the largest and the five largest customers accounted for 60% and 64% respectively, of the Group's total turnover. The five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

As far as the Directors are aware, neither the Directors, their respective associates, nor 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' REPORT

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 38 to the financial statements.

DIRECTORS

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

Executive directors:

Mr. Chan Fook Lai — <i>Honorary Chairman</i>	
Mr. Chu Yu Lin, David — <i>Chairman</i>	<i>(appointed as Chairman on August 27, 2001)</i>
Mr. Chan King Hung	
Mrs. Chu Ho Miu Hing	<i>(appointed as Vice Chairman on June 11, 2001 and resigned as Vice Chairman on August 27, 2001)</i>
Mr. Lu Xin — <i>Vice Chairman and Managing Director</i>	<i>(appointed on May 22, 2001, re-designated as Vice Chairman and Managing Director on June 11, 2001)</i>
Mr. Song Yu Qing — <i>Vice Chairman</i>	<i>(appointed as director and Vice Chairman on August 27, 2001)</i>
Mr. Bao Guanghe — <i>Managing Director</i>	<i>(appointed as director and Managing Director on March 12, 2002)</i>

Non-executive director:

Mr. Leung Wing Kin	<i>(resigned on July 11, 2001)</i>
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Independent non-executive directors:

Mr. Tang Tin Sek
Mr. Ko Ming Tung, Edward
Mr. Chung Chi Chiu

In accordance with Clause 86(2) of the Company's Bye-laws, Messrs. Song Yu Qing and Bao Guanghe retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Clause 87 of the Company's Bye-laws, Messrs. Ko Ming Tung, Edward and Tang Tin Sek retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of Mr. Chan Fook Lai, Mr. Chan King Hung and Mr. Chu Yu Lin, David has entered into a service contract with the Company on December 28, 2000 which will continue unless and until terminated by either party.

DIRECTORS' REPORT

DIRECTORS (continued)

The non-executive directors have been appointed for a term subject to retirement by rotation in accordance with the Company's Bye-laws.

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 SHARES

(i) Shares

At March 31, 2002, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of directors	Number of ordinary shares held			Notes
	Personal interests	Family interests	Corporate interests	
Mr. Chu Yu Lin, David	652,876,297	241,425,668	152,000,000	1
Mrs. Chu Ho Miu Hing	241,425,668	804,876,297	—	2
Mr. Chan King Hung	5,000,000	—	—	

Notes:

1. 152,000,000 shares are held by Quizzical Holdings Limited, a company which is 50% owned by Weinberg Group Limited, and 50% owned by Hunter Valley Group Limited. Hunter Valley Group Limited is 100% owned by Manta Corporation, a company holding such shares as trustee on trust for The Manta Trust, a discretionary trust, the eligible beneficiaries of which include Mr. Chu Yu Lin, David and his present children.

The family interests of 241,425,668 shares represents the interest of Mrs. Chu Ho Miu Hing, the wife of Mr. Chu Yu Lin, David.

2. The family interests of 804,876,297 shares represents the interests of Mr. Chu Yu Lin, David, the husband of Mrs. Chu Ho Miu Hing.

As at March 31, 2002, Mr. Chu Yu Lin, David was interested in 120 convertible redeemable non-voting preference shares which are convertible into ordinary shares of the Company at an initial conversion price equal to the lower of (i) HK\$0.40 and (ii) the average of the 10 lowest daily closing prices per share on the Stock Exchange during the 30 days immediately prior to the date of issue of the conversion notice (subject to adjustment).



DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES *(continued)*

(ii) Shares in a subsidiary

The personal beneficial interests of the directors in the non-voting deferred shares of the Company's subsidiaries as at March 31, 2002 were as follows:

Name of subsidiary	Name of director	Number of non-voting deferred shares
Calorie Limited	Mr. Chu Yu Lin, David	20

The non-voting deferred shares carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of Calorie Limited or to participate in any distributions on winding up.

Save as disclosed above and other than the nominee shares in subsidiaries held by a director in trust for the subsidiaries, at March 31, 2002, none of the directors and their associates had any interests in any securities of the Company or any of its subsidiaries or associated corporations as defined in the SDI Ordinance.

SHARE OPTIONS

The Company has a share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed on September 11, 1996 for the primary purpose of providing incentives to directors and eligible employees and will expire on September 10, 2006. Under the Scheme, the board of directors of the Company may, at its discretion, grant option shares to eligible employees, including executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company. Option shares granted, if taken up, must be taken up within 28 days from the date of grant, upon payment of HK\$1 per option. Option shares may be exercised at any time from six months from the date of acceptance of the grant of the option shares to the third anniversary of the date of acceptance of the grant. The exercise price is determined by the directors of the Company and at a price equal to the higher of the nominal value of the shares and at a price not less than 80% of the average of the closing price of the shares on the Stock Exchange on the five trading days immediate preceding the date of grant of the option shares. The maximum number of shares in respect of which option shares may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

DIRECTORS' REPORT

SHARE OPTIONS *(continued)*

The Black-Scholes options pricing model requires the input of high subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options and therefore no such calculation was presented.

No charge is recognised in the income statement in respect of the value of options granted during the year.

The following table discloses movements in the Company's share options during the year.

	Date share options granted	Exercisable period	Exercise Price HK\$	Number of share options outstanding			
				At March 31, 2001	Granted during the year	Exercised during the year	At March 31, 2002
Directors							
Mr. Chan Fook Lai	February 1, 2000	August 28, 2000 to August 27, 2003	0.228	1,100,000	—	—	1,100,000
	March 2, 2001	September 15, 2001 to September 14, 2004	0.10	11,000,000	—	9,000,000	2,000,000
	August 1, 2001	February 1, 2002 to January 31, 2005	0.255	—	5,800,000	—	5,800,000
Mrs. Chu Ho Miu Hing	October 20, 1999	April 28, 2000 to April 27, 2003	0.17	20,000,000	—	20,000,000	—
	February 1, 2000	August 28, 2000 to August 27, 2003	0.228	3,000,000	—	1,400,000	1,600,000
	March 2, 2001	September 15, 2001 to September 14, 2004	0.10	14,000,000	—	14,000,000	—
	August 1, 2001	February 1, 2002 to January 31, 2005	0.255	—	5,800,000	—	5,800,000
Mr. Chan King Hung	October 20, 1999	April 28, 2000 to April 27, 2003	0.17	20,000,000	—	—	20,000,000
	February 1, 2000	August 28, 2000 to August 27, 2003	0.228	3,000,000	—	—	3,000,000
	March 2, 2001	September 15, 2001 to September 14, 2004	0.10	11,000,000	—	10,000,000	1,000,000
	May 16, 2001	November 18, 2001 to November 17, 2004	0.10	—	7,600,000	—	7,600,000
	August 1, 2001	February 1, 2002 to January 31, 2005	0.255	—	5,800,000	—	5,800,000



DIRECTORS' REPORT

SHARE OPTIONS *(continued)*

	Date share options granted	Exercisable period	Exercise Price HK\$	Number of share options outstanding			
				At March 31, 2001	Granted during the year	Exercised during the year	At March 31, 2002
Directors							
Mr. Chu Yu Lin, David	October 20, 1999	April 28, 2000 to April 27, 2003	0.17	20,000,000	—	20,000,000	—
	February 1, 2000	August 28, 2000 to August 27, 2003	0.228	3,000,000	—	3,000,000	—
	March 2, 2001	September 15, 2001 to September 14, 2004	0.10	11,000,000	—	11,000,000	—
	May 16, 2001	November 18, 2001 to November 17, 2004	0.10	—	7,600,000	7,600,000	—
	August 1, 2001	February 1, 2002 to January 31, 2005	0.255	—	5,800,000	—	5,800,000
Mr. Lu Xin	May 16, 2001	November 18, 2001 to November 17, 2004	0.10	—	15,800,000	10,000,000	5,800,000
	August 1, 2001	February 1, 2002 to January 31, 2005	0.255	—	5,800,000	—	5,800,000
				117,100,000	60,000,000	106,000,000	71,100,000
Employees							
	October 20, 1999	April 28, 2000 to April 27, 2003	0.17	10,000,000	—	10,000,000	—
	March 2, 2001	September 15, 2001 to September 14, 2004	0.10	8,000,000	—	8,000,000	—
	August 1, 2001	February 1, 2002 to January 31, 2005	0.255	—	4,300,000	900,000	3,400,000
	December 8, 2001	June 8, 2002 to June 7, 2005	0.378	—	4,000,000	—	4,000,000
				18,000,000	8,300,000	18,900,000	7,400,000
				135,100,000	68,300,000	124,900,000	78,500,000

DIRECTORS' REPORT

SHARE OPTIONS *(continued)*

The closing price and the weighted average closing price of the Company's ordinary shares immediately before the date of grant are as follows:

Date of grant	Closing price of Company's ordinary share <i>HK\$</i>	Weighted average closing price of Company's ordinary shares <i>HK\$</i>
May 16, 2001	0.14	0.125
August 1, 2001	0.355	0.318
December 8, 2001	0.39	0.378

Save as disclosed 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 debentures of, the Company or any other body corporate. In addition, none of the directors or their spouses or children under the age of 18 had any right to subscribe for the shares of the Company or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 34 to the financial statements and connected transactions below, no contracts of significance subsisted at any time during the year 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.

CONNECTED TRANSACTIONS

On July 20, 2001, the Company entered into a conditional agreement with Mr. Chu Yu Lin, David ("Mr. Chu") to purchase from him 150 shares of US\$1 each in Hong Kong Satellite Technology Holdings Limited ("Hong Kong Satellite"), a company in which Mr. Chu is also a director and, together with Mrs. Chu Ho Miu Hing, a controlling shareholder, for a total consideration of US\$15,000,000.

On the same date, the Company also entered into a conditional agreement with Hong Kong Satellite to subscribe for 50 new shares of US\$1 each in its share capital for a total consideration of US\$5,000,000. Mr. Chu acted as the guarantor to guarantee the performance by Hong Kong Satellite of its obligation to the Company under this agreement.



DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(continued)*

On January 4, 2002, the Company entered into the subscription agreement pursuant to which the Company will issue to Mr. Chu, 283 convertible redeemable non-voting preference shares ("Preference Shares") at a price equal to the par value of HK\$1,000,000 per Preference Share for a total consideration of HK\$283,000,000 to settle an equivalent amount of indebtedness to be assigned to Mr. Chu. Under the subscription agreement, Mr. Chu shall have the option to subscribe up to further 33 Preference Shares within 12 months from the date of the subscription agreement. 163 Preference Shares were converted into 407,500,000 ordinary shares of HK\$0.1 each of the Company at HK\$0.4 per share during the year 2002. At March 31, 2002, dividend for Preference Shares of approximately HK\$136,000 was payable to Mr. Chu in accordance with the rights of preference shareholders of the Company.

On January 4, 2002, Mass Come Development Limited ("Mass Come", a wholly-owned subsidiary of the Company), Pure Fair Investment Limited ("Pure Fair", an indirect non-wholly owned subsidiary of the Company), Bank of China (Hong Kong) Limited ("BOC") and Mr. Chu entered into a deed of assignment pursuant to which indebtedness in the region of HK\$216 million owing to BOC by Mass Come and Pure Fair would be assigned to Mr. Chu. The aforesaid indebtedness assigned to Mr. Chu was settled by way of the issue of 216 Preference Shares of the Company to Mr. Chu. On the date of completion of the deed of assignment, approximately HK\$36,200,000 owed by Pure Fair to BOC and assigned to Mr. Chu was settled on behalf of Pure Fair by the Company. At March 31, 2002, the net advances to Pure Fair by the Group, after taking into account the aforesaid amount settled, was approximately HK\$30,542,000 which is unsecured, bears interest at prime rate plus 0.5% and has no fixed repayment term.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed in directors' interest in shares, no other person is recorded in the register kept under section 16 of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

DIRECTORS' REPORT

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.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the convertible redeemable non-voting preference shares, and share option scheme disclosed above and the debentures described in notes 20, 21 and 23 respectively to the financial statements, the Company had no outstanding convertible securities, options, warrants or similar rights as at March 31, 2002 and there had been no exercise of any convertible securities, options, warrants or similar rights 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 which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The independent non-executive Directors of the Company were not appointed for a specific term but were subject to re-election in a specified period in accordance with the Company's Bye-laws. Save as disclosed above, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the annual report, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDITORS

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

On behalf of the Board

Chu Yu Lin, David

Chairman

Hong Kong, July 25, 2002

