

The directors herein present their annual report together with the audited financial statements of the Company and the Group for the year ended 31st March, 2002.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the Group involve the systems integration of mid-range computers; software development and the provision of related services; the distribution of computer products; and e-business. There were no significant changes in the nature of the Group's principal activities during the year. During the year ended 31st March, 2001, the Group discontinued its business of the trading of telecommunication products and cabling and intelligent building projects, as further detailed in note 6 to the financial statements.

## **SEGMENT INFORMATION**

An analysis of the Group's turnover and contribution to results by geographical area and principal activity of operations for the year ended 31st March, 2002 is set out in note 7 to the financial statements.

## **MAJOR SUPPLIERS AND CUSTOMERS**

During the year, the largest supplier of the Group accounted for approximately 67% (2001: 63%) of the Group's total purchases and the five largest suppliers accounted for approximately 78% (2001: 78%) of the Group's total purchases.

During the year, sales to the Group's five largest customers accounted for 33% of the total sales for the year and sales to the largest customer included therein amounted to 12%. Sales to the Group's five largest customers accounted for less than 30% of the total sales in the prior year.

None of the directors, their associates, nor those shareholders, who to the best knowledge of the directors own more than 5% of the Company's share capital, had any interest in the five largest suppliers and customers.

## **FINANCIAL RESULTS**

The Group's loss for the year ended 31st March, 2002 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 37 to 110.

# Report of the Directors

## DIVIDENDS

No interim dividend was paid during the year (2001: Nil) and the directors do not recommend the payment of any final dividend in respect of the year ended 31st March, 2002 (2001: Nil).

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 16 and 17, respectively, to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options, together with the reasons therefor, are set out in note 32 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements. As at 31st March, 2002, the Company did not have any reserves available for cash distribution and/or distribution in specie (2001: Nil).

## CONVERTIBLE BONDS

Details of the convertible bonds of the Company at the balance sheet date are set out in note 34 to the financial statements.

## DIRECTORS

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

### Executive directors:

LAM Hon Nam ( <i>Co-Chairman</i> )	( <i>Note 1</i> )
MA Chun Kwong, Edmund ( <i>Co-Chairman</i> )	( <i>Note 1</i> )
WAI Yee Jan	
LOH Tiak Koon	( <i>Appointed on 3rd April, 2002</i> )
CHING Wan Kwan	
WANG Guangdi	( <i>Deceased on 18th August, 2001</i> )

## DIRECTORS (continued)

### Non-executive directors:

LAI Kai Ming, Dominic	<i>(Note 4)</i>
CHAN Wen Mee, May	<i>(Appointed on 3rd April, 2002 and note 2)</i>
Tuan LAM	<i>(Appointed on 3rd April, 2002)</i>
Stephen INGRAM	<i>(Appointed on 3rd April, 2002)</i>
WONG Fan Voon	<i>(Appointed as alternate director to Tuan Lam on 3rd April, 2002)</i>
YANG Paul Chunyao	<i>(Appointed as alternate director to Stephen Ingram on 3rd April, 2002)</i>

### Independent non-executive directors:

WONG Kin Cheung, Francis	<i>(Note 3)</i>
LAM Lee G.	<i>(Appointed on 26th June, 2002)</i>
AU Sui-Chee, Robert	<i>(Resigned on 20th August, 2001)</i>
IP Tin Chee, Arnold	<i>(Resigned on 15th March, 2002)</i>

In accordance with the Company's bye-laws, Wong Kin Cheung, Francis and Lam Lee G. will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Note 1: Lam Hon Nam and Ma Chun Kwong, Edmund are directors of the Company and were appointed as the alternate director to each other on 3rd April, 2002.

Note 2: Chan Wen Mee, May is also an alternate director to Lai Kai Ming, Dominic.

Note 3: Wong Kin Cheung, Francis resigned as the alternate director to Au Sui-Chee, Robert on 20th August, 2001. On the same day, he was appointed as an independent non-executive director.

Note 4: Lai Kai Ming, Dominic is a director of the Company and was appointed as the alternate director to Chan Wen Mee, May on 3rd April, 2002.

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARE

At the balance sheet date, the interests of the directors in the share capital of the Company and its associated corporations (as defined under the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained 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 (the "Model Code"), or as otherwise known to the directors, were as follows:

### (a) Interests in the Company's shares

Name of director	Number of shares held			Total
	Personal	Family	Corporate	
Lam Hon Nam	400,000	–	136,494,800(i)	136,894,800
Ma Chun Kwong, Edmund	1,550,000	300,000	136,494,800(i)	138,344,800
Wai Yee Jan	1,500,000	–	136,494,800(i)	137,994,800
Ching Wan Kwan	1,020,000	–	–	1,020,000
Wang Guangdi	1,060,000	40,000	–	1,100,000

- (i) The above 136,494,800 shares are held by Lam Ma & Wai Limited, a company incorporated in the British Virgin Islands, which is owned as to 45.94%, 45.46% and 8.60% by Mr. Lam Hon Nam, Mr. Ma Chun Kwong, Edmund and Mr. Wai Yee Jan, respectively.

### (b) Interests in associated corporations

Name of company	Name of director	Number of non-voting deferred shares held/ Percentage of equity interest held
		-Personal interests
Vanda Computer & Equipment Company Limited	Lam Hon Nam	918,800
	Ma Chun Kwong, Edmund	909,200
	Wai Yee Jan	172,000
Vanda Instrument & Equipment Company Limited	Lam Hon Nam	229,700
	Ma Chun Kwong, Edmund	227,300
	Wai Yee Jan	43,000
Janeper Development Limited	Lam Hon Nam	150,000
	Ma Chun Kwong, Edmund	150,000
Beijing New Generation Computer Graphics Co., Ltd.	Wai Yee Jan	15%

## **DIRECTORS' INTERESTS IN SHARE (continued)**

### **(b) Interests in associated corporations (continued)**

Mr. Lam Hon Nam also holds one ordinary share of HK\$1 in each of Vanda Computer & Equipment Company Limited, Vanda Instrument & Equipment Company Limited, Janeper Development Limited and Azure Technology Limited in trust for Vanda (B.V.I.) Limited; holds one ordinary share of HK\$1 of Vanda Software Engineering Company Limited in trust for Vandasoft Technology Holdings Limited; holds one ordinary share of HK\$1 in Vanda Information Technology Limited in trust for Vanda Software Engineering Company Limited; holds one ordinary share of HK\$1 in Wiseasia.com Limited in trust for Interactive Technology Limited; and holds ten ordinary shares of HK\$0.10 each of DigiLogistics.com Limited in trust for Empower International Limited. Mr. Ma Chun Kwong, Edmund also holds one ordinary share of Peso100 in Azure Technologies Phils., Inc. in trust for Vanda Systems (Singapore) Pte Ltd.

Mr. Wai Yee Jan holds ordinary share capital of MOP\$1,000 in each of Vanda Computer Service (Macau) Company Limited and WiseAsia Computer Service (Macau) Company Limited respectively in trust for Interactive Technology Limited; holds one ordinary share of HK\$1 in BonVision Technology Limited in trust for Automatic Associates Limited; and holds one ordinary share of HK\$1 in Vanda Computer Service (HK) Company Limited in trust for Interactive Technology Limited.

Save as disclosed above, none of the directors has or has had any interest, either directly or indirectly, in the equity securities of the Company or its associated corporations, which requires notification to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which requires, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

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

Apart from as disclosed under the heading "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

### (i) Existing Scheme of the Company

Pursuant to an ordinary resolution passed on 22nd March, 1995, the Company adopted a share option scheme (the "Existing Scheme") for the purpose of providing incentive and rewards to eligible participants. On 2nd April, 2002, the Existing Scheme was terminated and replaced by a new option scheme, as detailed below under the heading "New Option Scheme of the Company". Upon the termination of the Existing Scheme, no further options will be offered pursuant to the Existing Scheme, however the Existing Scheme will in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted pursuant thereto (the "Outstanding Options"). The Outstanding Options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

Eligible participants of the Existing Scheme included employees or executive directors of the Company or any of its subsidiaries (the "Employees"). The directors of the Company (the "Directors") are authorised to invite, at their discretion, eligible participants to take up options to subscribe for shares in the Company (the "Shares"). The options are exercisable for a period to be notified by the board of Directors to each grantee and in any event such period of time should not exceed a period of three years commencing on the expiry of six months after the date on which the option is accepted, provided that no options can be exercised after 21st March, 2005. Unless otherwise cancelled or amended, the Existing Scheme will remain in force for a period of 10 years commencing on 22nd March, 1995.

The maximum number of Shares in respect of which options may be granted (together with Shares issued pursuant to options exercised and Shares in respect of which any options remain outstanding) under the Existing Scheme and any other share options schemes of the Company may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose Shares issued on exercise of options granted pursuant to the Existing Scheme. At 31st March, 2002, the number of shares issuable under share options granted under the Existing Scheme was 20,937,000, which represented approximately 5% of the Company's shares in issue as at that date. No option may be granted to any one Employee which, if exercised in full, would result in such Employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued and remaining issuable to him or her under the Existing Scheme, would exceed 25% of the aggregate number of Shares for the time being issued and are issuable under the Existing Scheme.

## SHARE OPTION SCHEME (continued)

### (i) Existing Scheme of the Company (continued)

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK\$1 in total by the grantee. The vesting period of the share options was determinable by the directors.

The subscription price for Shares under the Existing scheme will be a price determined by the board of Directors of the Company and notified to each grantee and will be the higher of: (i) a price being not less than 80% of the average closing price of the Shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the option granted to a grantee; and (ii) the nominal value of a Share.

The following share options were outstanding under the Existing Scheme during the year:

Name or category of participant	Date of grant of share options	Number of share options held at 1st April 2001	Granted during the year	Exercised during the year	Expired during the year	Number of share options held at 31st March 2002	Exercise price of share options** HK\$	Price of Company's shares***	
								At grant date of options HK\$	At exercise date of options HK\$
<b>Directors</b>									
Lam Hon Nam	15.4.1999	400,000	-	-	-	400,000	0.42	0.76	-
	23.11.1999	1,500,000	-	-	-	1,500,000	0.87	1.21	-
	12.7.2000	1,000,000	-	-	-	1,000,000	2.20	2.75	-
Ma Chun Kwong, Edmund	2.5.2001	-	800,000	-	-	800,000	0.81	1.02	-
	23.11.1999	750,000	-	-	-	750,000	0.87	1.21	-
	12.7.2000	1,000,000	-	-	-	1,000,000	2.20	2.75	-
Wai Yee Jan	2.5.2001	-	800,000	-	-	800,000	0.81	1.02	-
	23.11.1999	750,000	-	-	-	750,000	0.87	1.21	-
	12.7.2000	1,000,000	-	-	-	1,000,000	2.20	2.75	-
Ching Wan Kwan	2.5.2001	-	600,000	-	-	600,000	0.81	1.02	-
	23.11.1999	650,000	-	-	-	650,000	0.87	1.21	-
	12.7.2000	500,000	-	-	-	500,000	2.20	2.75	-
Wang Guangdi	2.5.2001	-	400,000	-	-	400,000	0.81	1.02	-
	23.11.1999	350,000	-	-	-	350,000	0.87	1.21	-
	12.7.2000	400,000	-	-	-	400,000	2.20	2.75	-
	2.5.2001	-	350,000	-	-	350,000	0.81	1.02	-
		8,300,000	2,950,000	-	-	11,250,000			

# Report of the Directors

## SHARE OPTION SCHEME (continued)

### (i) Existing Scheme of the Company (continued)

Name or category of participant	Date of grant of share options	Number of share options held	Number of share options			Exercise price of share options**	Price of Company's shares***		
		at 1st April 2001	Granted during the year	Exercised during the year	Expired during the year		held at 31st March 2002	At grant date of options	At exercise date of options
						HK\$	HK\$	HK\$	
<b>Other employees</b>									
In aggregate	15.4.1999	400,000	-	250,000	-	150,000	0.42	0.76	1.08
	3.9.1999	250,000	-	-	-	250,000	0.58	0.74	-
	23.11.1999	3,000,000	-	1,098,500	101,500	1,800,000	0.87	1.21	1.20
	23.2.2000	344,000	-	-	104,000	240,000	4.05	7.95	-
	1.3.2000	200,000	-	-	-	200,000	5.30	7.30	-
	26.4.2000	22,000	-	-	12,000	10,000	3.20	3.73	-
	12.7.2000	2,940,000	-	-	620,000	2,320,000	2.20	2.75	-
	2.5.2001	-	5,380,000	242,500	420,500	4,717,000	0.81	1.02	1.04
		<u>7,156,000</u>	<u>5,380,000</u>	<u>1,591,000</u>	<u>1,258,000</u>	<u>9,687,000</u>			
		<u>15,456,000</u>	<u>8,330,000</u>	<u>1,591,000</u>	<u>1,258,000</u>	<u>20,937,000</u>			

The vesting period of the above outstanding share options is from the date of the grant until the commencement of the exercise period and only 50% of the options can be exercised within the first year from the date on which the options are accepted. Details of the exercise period of the above outstanding share options were included in note 32 to the financial statements.

\*\* The exercise price of the share options is subject to adjustment, in accordance with the provisions of the Existing Scheme, in the event of an alternation in the capital structure of the Company.

\*\*\* The price of the Shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.



## SHARE OPTION SCHEME (continued)

### (i) Existing Scheme of the Company (continued)

Summary details of the Company's share option scheme operating during the year are also set out in note 32 to the financial statements.

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 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. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the grantee, because the cost associated to derive the theoretical value outweighs the benefits of such information to the shareholders.

### (ii) Share option scheme of subsidiaries

On 21st May, 2001, the Company approved the adoption by certain subsidiaries (the "Subsidiaries") of the respective share option schemes (collectively the "Subsidiaries' Scheme"). The purpose of the adoption of the Subsidiaries' Scheme is to provide greater incentive to the Subsidiaries' employees, thereby improving their productivity and helping to retain key staff. The board of directors of a relevant Subsidiary may, at their discretion, offer to grant options to subscribe for shares in the relevant Subsidiary to employees and any executive directors of the relevant Subsidiary. Subject to any earlier termination by a relevant Subsidiary, the Subsidiaries' Scheme shall be valid and effective for a period of ten years from 21st May 2001. The issue of shares in the relevant Subsidiary pursuant to the exercise of an option by the grantee shall be conditional upon the unconditional completion of the listing of the shares of the relevant subsidiary ("Subsidiary Shares") on any internationally recognised stock exchange. Subject to the above, an option may be exercised in accordance with the terms of the Subsidiaries' Scheme, and in any event shall not exceed ten years commencing from the date of grant of the option.

## SHARE OPTION SCHEME (continued)

### (ii) Share option scheme of subsidiaries (continued)

The total number of Subsidiary Shares which can be subscribed for through exercising all options granted under the Subsidiaries' Scheme and any other share option scheme of the Subsidiary shall in aggregate not exceed 10% of the total number of the Subsidiary Shares in issue from time to time (excluding any Subsidiary Shares issued pursuant to the Subsidiaries' Scheme). No option may be granted to any one person which if exercised in full would result in the total number of the Subsidiary Shares already issued and issuable to the grantee under all the options previously granted to him, and the proposed option, exceeding 25% of the total number of Subsidiary Shares subject to the Subsidiaries' Scheme.

The offer of a grant of share options may be accepted upon payment of a nominal consideration by the grantee of HK\$1 for a relevant Subsidiary incorporated in Hong Kong, or an appropriate amount in the currency of the jurisdiction, if not in Hong Kong, in which the relevant Subsidiary has its principal place of business.

The minimum exercise price for the options granted under the Subsidiaries' Scheme shall be the higher of (i) the par value per the relevant Subsidiary Share; or (ii) 80% of the net asset value of the relevant Subsidiary, as stated in the latest audited financial statements or, if audited financial statements are not available, the latest management accounts of the relevant Subsidiary, divided by the number of the relevant Subsidiary Shares in issue at the date of the latest audited financial statements or latest management accounts (as the case may be).

Up to the date of this report, no option has been granted under the Subsidiaries' Scheme.

### (iii) New Option Scheme of the Company

Consequential upon the amendments made to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") which came into effect on 1st September 2001, no option may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to, and to strengthen the Group's business relationship with the prescribed classes of participant who may contribute to the growth and development of the Group (who now become classes of potential grantees of the share options as expanded by the Listing Rules), a new option scheme (the "New Option Scheme") was adopted by the Company on 2nd April, 2002 and at the same time the Existing Scheme was terminated. The New Option Scheme will remain in force for ten years commencing on 2nd April, 2002.

## SHARE OPTION SCHEME (continued)

### (iii) New Option Scheme of the Company (continued)

Upon the termination of the Existing Scheme, no further options will be offered pursuant to the Existing Scheme, however the Existing Scheme will in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted pursuant thereto (the "Outstanding Options"). Unless otherwise cancelled or amended, the Outstanding Options will continue to be valid and exercisable in accordance with the provisions of the Existing Scheme.

Under the New Option Scheme, the eligibility of the participants for the grant of any options shall be determined by the directors of the Company from time to time on the basis of their contribution to the development and growth of the Group and the directors may, at their discretion, invite any person belonging to any of the following classes of participants to take up option for Shares:

- (a) any employee/consultant or proposed employee/consultant (including executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which a member of the Group holds any equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of any member of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (f) any shareholder of any member of the Group or any Invested Entity, or any holder of any securities issued by any member of the Group or any Invested Entity;
- (g) any other group or classes of participants who have contributed or may contribute by way of a joint venture, business alliance or other business arrangement to the development and growth of the Group; and
- (h) any company wholly owned by one or more persons belonging to any of the above classes of participants.

### SHARE OPTION SCHEME (continued)

#### (iii) New Option Scheme of the Company (continued)

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not in aggregate exceed 30% of the relevant class of shares of the Company (or its subsidiaries) in issue from time to time.

The total number of shares which may be allotted and issued upon the exercise of all options to be granted under the New Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the relevant class of shares of the Company in issue at the date of approval of the limit by the Company in general meeting.

The total number of shares issued and which may fall to be issued upon the exercise of the options granted under the New Option Scheme and any other share option scheme of the Group, including both exercised or outstanding option, to each participant in any 12-month period, shall not exceed 1% of the issued share capital of the Company for the time being unless approved by the shareholders in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of option to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, would result in the Shares issued and to be issued upon the exercise of all options already granted and be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK\$5 million, such further grant of options must be approved by the shareholders in general meeting. Any change in the terms of the options granted to a substantial shareholder or an independent non-executive director, or any of their associates must be approved by the shareholders in general meeting.

## SHARE OPTION SCHEME (continued)

### (iii) New Option Scheme of the Company (continued)

An option may be accepted by a participant by the payment of a nominal value of HK\$1. An option may be exercised in accordance with the terms of the New Option Scheme at any time during a period to be determined on the date of offer of grant of option and notified by the Directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date on which the offer of the grant of the options was made, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the New Option Scheme for the holding of an option before it can be exercised.

The exercise price of the Shares under the New Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

## DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed under the section "Service contracts of directors" below and in notes 5 and 39 to the financial statements, no director had a material beneficial interest in any contract of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party during the year.

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

During the year ended 31st March, 2002, the Company repurchased its own shares on the Stock Exchange, the details of which are set out as follows:

Date	Number of shares	Highest	Lowest	Total
		HK\$	HK\$	Consideration HK\$
4th April, 2001	98,000	0.80	0.80	78,693
9th April, 2001	214,000	0.78	0.75	162,544
10th April, 2001	320,000	0.74	0.72	234,852
Total	<u>632,000</u>			<u>476,089</u>

## Report of the Directors

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES (continued)**

The above shares were cancelled upon repurchase and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium and brokerage expenses payable on repurchase were charged against the share premium account.

Apart from the above repurchases of shares, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the year.

### **SUBSTANTIAL SHAREHOLDERS**

At the balance sheet date, the register of substantial shareholders maintained pursuant to Section 16(1) of the SDI Ordinance, showed that no person, other than those disclosed under the section "Directors' interests in shares" above, had a beneficial interest in 10% or more of the Company's issued share capital.

### **SERVICE CONTRACTS OF DIRECTORS**

Mr. Lam Hon Nam, Mr. Ma Chun Kwong, Edmund, Mr. Wai Yee Jan and Ms. Ching Wan Kwan have entered into service contracts with the Company which may be terminated by either party to the contracts with six months' notice.

Save as disclosed above, during the year, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than the statutory obligation.

### **MANAGEMENT CONTRACTS**

No contract concerning the management and administration of the whole or any substantial part of the business of the Company, between the Company and its controlling shareholder or any of the controlling shareholder's subsidiaries, was entered into during the year or existed at the balance sheet date.

### **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.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the year and up to the date of this report, 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 (the "Listing Rules"), except that the independent non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

## AUDIT COMMITTEE

Pursuant to an ordinary resolution passed on 12th February, 2000, an audit committee (the "Committee") was established in accordance with the requirements of the Listing Rules. The scope of authority and responsibility of the Committee is defined according to the guidance issued by the Hong Kong Society of Accountants. The Committee's principal duties are to assist the directors of the Company in providing an independent review of the effectiveness of the financial reporting process and internal controls of the Group.

## 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

**Lam Hon Nam**

*Co-Chairman*

Hong Kong

25th July, 2002