

# REPORT OF THE DIRECTORS

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

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. On 7 May 2001, the Group completed the discontinuance of the provision of Internet on-line games activity as a result of the fulfilment of all the conditions in relation to the disposal of the 100% equity interest in Sega.com Asia Networks Limited and the entire 6.8% equity interest in Sega.com PC Networks, Inc. to Sega.com, Inc.. Further details of the above disposal are set out in note 4 to the financial statements. Save as aforesaid, there were no other changes in the nature of the Group's principal activities during the year. The principal activities of its principal subsidiaries are set out in note 18 to the financial statements.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to profit from ordinary activities by principal activities and geographical area of operations for the year ended 31 March 2002 is set out in note 5 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2002 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 23 to 68.

An interim dividend of HK0.5 cent per ordinary share was paid on 9 January 2002. The directors recommend the payment of a final dividend of HK1.5 cents per ordinary share in respect of the year ended 31 March 2002 to all shareholders whose names appear on the register of members of the Company on 5 September 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in note 13 to the financial statements.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the respective published audited financial statements and reclassified as appropriate, is set out as below. Certain amounts in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements. The effect of this change in accounting policy is that prior year adjustments have been made to reclassify the proposed final dividend of HK\$6,400,000, HK\$5,760,000 and HK\$3,343,000 for the years ended 31 March 1998, 1999 and 2001, respectively, which were recognised as a current liability at the respective year ends, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Company's and the Group's current liabilities and increase the reserves previously reported as at 31 March 1998, 1999 and 2001, by HK\$6,400,000, HK\$5,760,000 and HK\$3,343,000, respectively.

# REPORT OF THE DIRECTORS

## SUMMARY FINANCIAL INFORMATION (Continued)

In addition, a prior year adjustment has also been made to reclassify the proposed special dividend of HK\$32,730,000 for the year ended 31 March 2000 which were only payable after the completion of acquisition of certain assets subsequent to 31 March 2000 and the approval of the shareholders of the Company. The result of this has been to reduce both the Company's and the Group's current liabilities and increase the reserves previously reported as at 31 March 2000 by HK\$32,730,000.

### RESULTS

|   | Year ended 31 March |                  |                  |                  |                  |
|---|---------------------|------------------|------------------|------------------|------------------|
|   | 2002<br>HK\$'000    | 2001<br>HK\$'000 | 2000<br>HK\$'000 | 1999<br>HK\$'000 | 1998<br>HK\$'000 |
| <b>TURNOVER</b>   |                     |                  |                  |                  |                  |
| Continuing operations   | 283,270             | 296,935          | 295,313          | 268,270          | 285,001          |
| Discontinued operation  | –                   | 346              | –                | –                | –                |
|   | <b>283,270</b>      | <b>297,281</b>   | <b>295,313</b>   | <b>268,270</b>   | <b>285,001</b>   |
| <b>PROFIT FROM OPERATING<br/>ACTIVITIES</b>                                     |                     |                  |                  |                  |                  |
| Continuing operations   | 17,751              | 19,094           | 27,344           | 43,755           | 57,540           |
| Discontinued operation  | –                   | (17,001)         | –                | –                | –                |
|   | <b>17,751</b>       | <b>2,093</b>     | <b>27,344</b>    | <b>43,755</b>    | <b>57,540</b>    |
| Finance costs   | (625)               | (1,912)          | (2,127)          | (1,420)          | (821)            |
| Share of profit of a<br>jointly-controlled entity                               | –                   | 26               | 28               | –                | –                |
|   | <b>17,126</b>       | <b>207</b>       | <b>25,245</b>    | <b>42,335</b>    | <b>56,719</b>    |
| Tax   | (2,294)             | 1,038            | (1,972)          | (3,141)          | (3,102)          |
|   | <b>14,832</b>       | <b>1,245</b>     | <b>23,273</b>    | <b>39,194</b>    | <b>53,617</b>    |
| <b>PROFIT BEFORE MINORITY<br/>INTERESTS</b>                                     |                     |                  |                  |                  |                  |
| Minority interests  | 344                 | 183              | –                | –                | –                |
|   | <b>15,176</b>       | <b>1,428</b>     | <b>23,273</b>    | <b>39,194</b>    | <b>53,617</b>    |
| <b>NET PROFIT FROM ORDINARY<br/>ACTIVITIES ATTRIBUTABLE<br/>TO SHAREHOLDERS</b> |                     |                  |                  |                  |                  |
|   | <b>15,176</b>       | <b>1,428</b>     | <b>23,273</b>    | <b>39,194</b>    | <b>53,617</b>    |

# REPORT OF THE DIRECTORS

## SUMMARY FINANCIAL INFORMATION (Continued)

### ASSETS, LIABILITIES AND MINORITY INTERESTS

|  | As at 31 March   |                                |                                |                                |                                |
|--|------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|  | 2002<br>HK\$'000 | 2001<br>HK\$'000<br>(Restated) | 2000<br>HK\$'000<br>(Restated) | 1999<br>HK\$'000<br>(Restated) | 1998<br>HK\$'000<br>(Restated) |
| FIXED ASSETS                                   | 181,861          | 202,315                        | 231,826                        | 234,905                        | 192,232                        |
| INVESTMENT PROPERTIES                          | 13,740           | 11,800                         | –                              | –                              | –                              |
| GOODWILL                                       | 527              | –                              | –                              | –                              | –                              |
| OTHER INVESTMENTS                              | –                | 142,794                        | –                              | –                              | –                              |
| NOTE RECEIVABLE                                | 15,500           | –                              | –                              | –                              | –                              |
| DEFERRED PRE-OPERATING<br>EXPENSES             | –                | –                              | –                              | 171                            | 234                            |
| HELD-TO-MATURITY SECURITIES                    | –                | –                              | –                              | –                              | 4,000                          |
| INTEREST IN A JOINTLY-<br>CONTROLLED ENTITY    | –                | –                              | 418                            | –                              | –                              |
| LONG TERM DEPOSITS                             | –                | 2,552                          | –                              | –                              | –                              |
| CURRENT ASSETS                                 | 164,634          | 158,908                        | 174,814                        | 151,994                        | 125,433                        |
| <b>TOTAL ASSETS</b>                            | <b>376,262</b>   | <b>518,369</b>                 | <b>407,058</b>                 | <b>387,070</b>                 | <b>321,899</b>                 |
| CURRENT LIABILITIES                            | 64,850           | 70,753                         | 64,874                         | 55,351                         | 40,898                         |
| LONG TERM PORTION OF<br>FINANCE LEASE PAYABLES | –                | –                              | 660                            | 113                            | 744                            |
| INTEREST-BEARING BORROWINGS                    | –                | 4,940                          | 15,917                         | 15,570                         | –                              |
| PROVISIONS FOR LONG SERVICE<br>PAYMENTS        | 1,952            | 1,395                          | 3,257                          | 3,278                          | 2,789                          |
| DEFERRED TAX                                   | 896              | 736                            | 9,940                          | 10,239                         | 10,018                         |
| <b>TOTAL LIABILITIES</b>                       | <b>67,698</b>    | <b>77,824</b>                  | <b>94,648</b>                  | <b>84,551</b>                  | <b>54,449</b>                  |
| MINORITY INTERESTS                             | –                | 1,017                          | –                              | –                              | –                              |
| <b>NET ASSETS</b>                              | <b>308,564</b>   | <b>439,528</b>                 | <b>312,410</b>                 | <b>302,519</b>                 | <b>267,450</b>                 |

### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 15 and 16 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTIONS

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

## 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.

## 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

At 31 March 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$126,935,000 as computed in accordance with the Companies Act 1981 of Bermuda (as amended). In addition, the Company's share premium account, with a balance of HK\$50,901,000 as at 31 March 2002, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (1) The aggregate amount of turnover attributable to the Group's five largest customers represented 40% of the Group's total turnover. The amount of sales to the Group's largest customer represented 14% of the Group's total turnover.
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 34% of the Group's total purchases. The amount of purchases from the Group's largest supplier represented 20% of the Group's total purchases.

None of the directors of the Company, 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 the Group's five largest customers and five largest suppliers.

# REPORT OF THE DIRECTORS

## DIRECTORS

The directors of the Company during the year were:

### Executive directors

Mr. Lui Chi

Mr. Brad Huang

Mr. Lui Shing Ming, Brian

Mr. Lui Shing Cheong

Mr. Lui Shing Chung, Victor

Mr. Lung Wai Kee

Mr. Shoichiro Irimajiri (resigned on 7 May 2001)

Mr. Masahiro Aozono (resigned on 7 May 2001)

### Independent non-executive directors

Mr. Lo Wing Man

Dr. Lam Chun Kong

Mr. Wang Chu Hong, James

In accordance with bye-law 87 of the Company's bye-laws, Messrs. Lui Shing Cheong and Lung Wai Kee will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

## DIRECTORS' SERVICE CONTRACTS

Messrs. Lui Chi, Lui Shing Ming, Brian, Lui Shing Cheong, Lui Shing Chung, Victor and Lung Wai Kee entered into service agreements with the Company for a term of three years commencing on 1 January 2000 which is subject to termination by either party giving not less than six months' written notice.

Save as disclosed above, 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 other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors in the issued 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:

| Director                    | Number of ordinary shares in the Company held<br>and nature of interest |                    |                      |       |
|-----------------------------|---|--------------------|----------------------|-------|
|                             | Personal  | Family             | Corporate            | Other |
| Mr. Lui Shing Ming, Brian   | –   | –                  | 225,887,500 (Note 1) | –     |
| Mr. Lui Shing Cheong        | 3,125,000   | –                  | 225,887,500 (Note 1) | –     |
| Mr. Lui Shing Chung, Victor | 1,250,000   | 625,000 (Note 2)   | 225,887,500 (Note 1) | –     |
| Mr. Lung Wai Kee            | 1,250,000   | 2,500,000 (Note 3) | –                    | –     |

*Notes:*

- The 225,887,500 ordinary shares are owned by Harmony Link Corporation, a company incorporated in the British Virgin Islands. Approximately 48.4% of the issued share capital of Harmony Link Corporation is held by The Lui Family Company Limited as trustee of The Lui Unit Trust. All units (except one unit which is owned by Mr. Lui Shing Ming, Brian) of The Lui Unit Trust are held by a discretionary trust, the discretionary objects of which include Messrs. Lui Shing Ming, Brian, Lui Shing Cheong, Lui Shing Chung, Victor and other family members of Mr. Lui Chi. Each of Messrs. Lui Shing Ming, Brian, Lui Shing Cheong and Lui Shing Chung, Victor further owns approximately 24.13%, 12.88% and 14.59% of the issued share capital of Harmony Link Corporation, respectively.

Subsequent to the balance sheet, the ordinary shares of the Company held by Harmony Link Corporation increased to 226,056,500 as further detailed under the heading "Substantial shareholders" below.

- The 625,000 ordinary shares are owned by the spouse of Mr. Lui Shing Chung, Victor.
- The 2,500,000 ordinary shares are owned by the spouse of Mr. Lung Wai Kee.

In addition to the above, certain directors have non-beneficial personal equity interest in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

# REPORT OF THE DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

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, its holding 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

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any director or employee of the Company and its subsidiaries. The Scheme was adopted by the Company on 27 December 1996 and became effective upon its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 January 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption.

Under the Scheme, no share option shall be granted which would result in the aggregate number of shares of the Company issued or issuable or which may be issuable to exceed 10% of the issued share capital of the Company at the time of granting of the share option (excluding any shares of the Company to be issued upon exercise of the share option). At 31 March 2002, the number of shares issuable under share options granted under the Scheme was 18,000,000 which represented approximately 4.3% of the Company's shares in issue as at that date. In accordance with the Scheme, no eligible participant shall be granted an option or options for such number of shares of the Company which in aggregate would exceed 25% of the total number of shares of the Company for which the share options may be granted.

The offer of share options is open for acceptance for a period of 21 days inclusive of, and from, the date of the making of such offer provided that no such offer shall be open for acceptance after the expiry of the Scheme.

The price per share of the Company payable on the exercise of an option equals to the higher of the nominal value of the shares of the Company or 80% of the average closing price per share of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of such option or such price as from time to time adjusted pursuant to the Scheme.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (Continued)

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of share option schemes, which came into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interest of the Company to terminate the existing Scheme of the Company adopted on 27 December 1996 and to adopt a new scheme. An ordinary resolution will be proposed at the Company's shareholders' meeting for the approval of the said adoption of the new scheme and termination of the Company's existing Scheme.

The share options granted by the Company to the grantees under the existing Scheme will not be affected by the proposed new scheme.

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

| Name or category of participant | Number of share options |                           |                        |                                     |                     | Date of grant of share options | Exercise period of share options      | Adjusted exercise price of share options * | Price of Company's shares** |                             |
|---------------------------------|-------------------------|---------------------------|------------------------|-------------------------------------|---------------------|--------------------------------|---------------------------------------|--|-----------------------------|-----------------------------|
|                                 | As at 1 April 2001      | Cancelled during the year | Lapsed during the year | Adjustment during the year (Note 1) | As at 31 March 2002 |                                |                                       |  | At grant date of options    | At exercise date of options |
| <b>Directors</b>                |                         |                           |                        |                                     |                     |                                |                                       |  |                             |                             |
| Lui Chi                         | 1,000,000               | -                         | -                      | 250,000                             | 1,250,000           | 30 October 1997                | 30 October 1997 to 26 December 2006   | 0.3507                                     | 0.5300                      | N/A                         |
|                                 | 1,500,000               | -                         | -                      | 375,000                             | 1,875,000           | 31 December 1999               | 31 December 1999 to 26 December 2006  | 0.2240                                     | 0.2900                      | N/A                         |
|                                 | 2,500,000               | -                         | -                      | 625,000                             | 3,125,000           |                                |                                       |  |                             |                             |
| Lui Shing Ming, Brian           | 1,000,000               | -                         | -                      | 250,000                             | 1,250,000           | 30 October 1997                | 30 October 1997 to 26 December 2006   | 0.3507                                     | 0.5300                      | N/A                         |
|                                 | 2,500,000               | -                         | -                      | 625,000                             | 3,125,000           | 31 December 1999               | 31 December 1999 to 26 December 2006  | 0.2240                                     | 0.2900                      | N/A                         |
|                                 | 3,500,000               | -                         | -                      | 875,000                             | 4,375,000           |                                |                                       |  |                             |                             |
| Lui Shing Chung, Victor         | 1,500,000               | -                         | -                      | 375,000                             | 1,875,000           | 31 December 1999               | 31 December 1999 to 26 December 2006  | 0.2240                                     | 0.2900                      | N/A                         |
| Brad Huang                      | 6,300,000               | (6,300,000)               | -                      | -                                   | -                   | 8 July 2000                    | 8 January 2001 to 26 December 2006    | 1.0960                                     | 1.6500                      | N/A                         |
|                                 | 6,000,000               | -                         | -                      | 1,500,000                           | 7,500,000           | 6 March 2000                   | 23 September 2000 to 26 December 2006 | 2.7744                                     | 5.6000                      | N/A                         |
|                                 | 12,300,000              | (6,300,000)               | -                      | 1,500,000                           | 7,500,000           |                                |                                       |  |                             |                             |



# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (Continued)

| Name or category of participant | Number of share options |                           |                        |                                     |                          | As at 31 March 2002 | Date of grant of share options       | Exercise period of share options | Adjusted exercise price of share options * | Price of Company's shares** |  |
|---------------------------------|-------------------------|---------------------------|------------------------|-------------------------------------|--------------------------|---------------------|--------------------------------------|----------------------------------|--|-----------------------------|--|
|                                 | As at 1 April 2001      | Cancelled during the year | Lapsed during the year | Adjustment during the year (Note 1) | At grant date of options |                     |                                      |                                  |  | At exercise date of options |  |
| Other employees                 |                         |                           |                        |                                     |                          |                     |                                      |                                  |  |                             |  |
| In aggregate                    | 500,000                 | -                         | -                      | 125,000                             | 625,000                  | 31 December 1999    | 31 December 1999 to 26 December 2006 | 0.2240                           | 0.2900                                     | N/A                         |  |
|                                 | 2,200,000               | -                         | (2,000,000)            | 50,000                              | 250,000                  | 8 July 2000         | 8 January 2001 to 26 December 2006   | 1.0960                           | 1.6500                                     | N/A                         |  |
|                                 | 200,000                 | -                         | -                      | 50,000                              | 250,000                  | 5 September 2000    | 5 September 2001 to 26 December 2006 | 1.4048                           | 2.2000                                     | N/A                         |  |
|                                 | 2,900,000               | -                         | (2,000,000)            | 225,000                             | 1,125,000                |                     |                                      |                                  |  |                             |  |
|                                 | 22,700,000              | (6,300,000)               | (2,000,000)            | 3,600,000                           | 18,000,000               |                     |                                      |                                  |  |                             |  |

### Notes:

- (1) The share options outstanding have been adjusted to reflect the adjustment factor resulted from the one for four bonus issue in the issued share capital of the Company as approved by the ordinary resolution passed at the general meeting held on 31 August 2001.
  - (2) The share options to subscribe for 625,000 ordinary shares at HK\$0.2240 per share in the Company that were granted to the spouse of Mr. Lui Shing Chung, Victor have been included in the "Other employees" category above and remained outstanding as at 31 March 2002.
- \* The exercise price of the share options is adjusted for the one for four bonus issue in the issued share capital of the Company as approved by the ordinary resolution passed at the general meeting held on 31 August 2001. The adjusted exercise price is subject to further adjustment in the case of any future rights or bonus issues, or other similar changes in the Company's share capital.
- \*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's closing price of the Company as at the date of the grant of the share options.

## SHARE OPTION SCHEME (Continued)

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.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

## SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests that is required to be kept by the Company, pursuant to Section 16(1) of the SDI Ordinance:

| Name                     | Number of<br>ordinary<br>shares held | Percentage of<br>holding in the<br>Company's issued<br>share capital |
|--------------------------|--------------------------------------|--|
| Harmony Link Corporation | 225,887,500                          | 54.1   |

On 28 February 2002, Harmony Link Corporation made an unconditional mandatory cash offers to acquire all the shares in issue of the Company at HK\$0.24 in cash per share and to cancel all the share options outstanding under the Scheme not already owned by Harmony Link Corporation and parties acting in concert with it at HK0.01 cent in cash under Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "General Offer"). Details of the General Offer is set out in the circular to the shareholders of the Company dated 8 April 2002.

Pursuant to the closing of the General Offer, the number of ordinary shares held by Harmony Link Corporation increased to 226,056,500 subsequent to the balance sheet date, representing 54.1% of the Company's issued share capital.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out under the heading "Directors' interests in shares" above, had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

# REPORT OF THE DIRECTORS

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

On 6 February 2001, as part of the terms of the Disposal and Share Repurchase Agreement entered into between the Company and Sega.com, Inc. for the disposal of the Group's 100% equity interest in Sega.com Asia Networks Limited and the entire 6.8% equity interest in Sega.com PC Networks, Inc., the Company repurchased 176,000,000 ordinary shares of the Company from Sega.com, Inc. valued at approximately HK\$139,050,000. On 7 May 2001, upon the fulfilment of the conditions in relation to the above transaction, the 176,000,000 repurchased shares were transferred to the Company and cancelled accordingly. The issued share capital of the Company was reduced by the par value in the aggregate of HK\$17,600,000 thereof. The premium on the repurchase of the shares, of HK\$121,450,000 has been debited to the share premium account. Further details of the above transaction are set out in note 4 to the financial statements and also in the circular to the shareholders of the Company dated 3 March 2001.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors 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 (the "Committee") which was established in accordance with the requirements of the Code and with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. The Committee comprises two independent non-executive directors, namely Dr. Lam Chun Kong and Mr. Wang Chu Hong, James. The principal duties of the Committee include the review and supervision of the Group's financial reporting process and internal controls.

## 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

**Lui Chi**  
*Chairman*

Hong Kong  
24 July 2002