

# REPORT OF THE DIRECTORS

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

## Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. During the year, the Group diversified its business into the investments of debt securities and listed equity securities.

## Segment Information

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

## Results and Dividends

The Group's loss for the financial year ended 31 March 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 87.

The directors do not recommend the payment of any dividend in respect of the financial year.

## Summary Financial Information

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 March 2002, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 88 and 89, respectively. The summary does not form part of the audited financial statements.

## Fixed Assets

Details of the movements in the fixed assets of the Group during the financial year are set out in note 14 to the financial statements.

## Share Capital and Share Options

Details of the movements in the share capital and share options of the Company during the financial year, together with the reasons therefor, are set out in note 23 to the financial statements.

# REPORT OF THE DIRECTORS

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## 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 financial year.

## Reserves

Details of the movements in the reserves of the Company and of the Group during the financial year are set out in note 24 to the financial statements.

## Distributable Reserves

Details of the amount of reserves distributable to shareholders of the Company at the balance sheet date are set out in note 24 to the financial statements.

## Major Customers and Suppliers

Sales attributable to the largest customer represented 100% of the Group's total sales for the financial year. Purchases from the Group's five largest suppliers accounted for less than 30% of the Group's purchases for the financial year.

None of the directors of the Company or any of 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 largest customer.

# REPORT OF THE DIRECTORS

## Directors

The directors of the Company during the financial year ended 31 March 2002 were:

Kwong Kai Sing, Benny	(appointed on 12 December 2001)
Poon Chi Wan	(appointed on 29 December 2001)
Chung Yuk Lun*	(appointed on 24 December 2001)
Chan Sze Hung*	(appointed on 12 December 2001)
To Shing Chuen*	(appointed on 31 January 2002)
Cai Zhi Zhou	(appointed on 12 April 2001 and resigned on 12 December 2001)
Chan Yim Kwong	(resigned on 12 April 2001)
Chow Sin Lok	(resigned on 24 April 2001)
Lai Hok Lim	(appointed on 12 April 2001 and resigned on 11 February 2002)
Lam Muk Wai*	(resigned on 12 December 2001)
Lee Hin Wai	(resigned on 24 April 2001)
Lee Siu Ying, June	(resigned on 12 April 2001)
Leung Mok Ying	(resigned on 12 April 2001)
Li Man Leung	(resigned on 21 January 2002)
Luo Lei	(appointed on 12 April 2001 and resigned on 12 December 2001)
Tam Pak Yin, Philip*	(appointed on 24 April 2001 and resigned on 24 December 2001)
Tsang Kwok Hung, Alan*	(resigned on 24 April 2001)
Wong Chun Ching, Kaiman	(resigned on 12 April 2001)
Wong Chun Hung, Vincent	(resigned on 17 October 2001)
Wong Fong Yee, Elisa	(resigned on 24 April 2001)
Wong Kin Keung	(resigned on 24 April 2001)
Wong Wai Man	(resigned on 12 April 2001)

\* *Independent non-executive directors*

Subsequent to the balance sheet date, on 27 April 2002, Mr. Chung Yuk Lun was re-designated from the role of independent non-executive director to non-executive director.

In accordance with bye-law 91 of the Company's bye-laws, Mr. Kwong Kai Sing, Benny, Ms. Poon Chi Wan, Mr. Chung Yuk Lun, Mr. Chan Sze Hung and Mr. To Shing Chuen will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

# REPORT OF THE DIRECTORS

## Directors' Service Contracts

None of the directors 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 of compensation, other than statutory compensation.

## Directors' Interests in Contracts of Significance

None of the directors had a significant interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the financial year.

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the financial year.

## Directors' Interests in Securities

At 31 March 2002, the interests of the directors in the equity or debt securities of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or which are required to be 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") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### Interests in ordinary shares in the Company

Name of director	Number of shares of HK\$0.01 each held			
	Personal interest	Family interest	Corporate interest	Other interest
Kwong Kai Sing, Benny	—	—	900,000,000	—

Note: These shares were held by Fortuna Investments Group Limited ("Fortuna"). Fortuna is a wholly-owned subsidiary of Goldworld Development Limited, a company wholly-owned by Mr. Kwong Kai Sing, Benny.

# REPORT OF THE DIRECTORS

## Directors' Interests in Securities (continued)

In addition to the above, certain directors have non-beneficial personal equity interests 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, as at 31 March 2002, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed under the heading "Share option scheme" below, at no time during the financial year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors 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

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 the Company's directors, including the independent non-executive directors, and other employees of the Group. The Scheme became effective on 10 October 1996 and was amended on 30 September 1997 and, unless otherwise cancelled or amended, will remain in force for ten years from 10 October 1996.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 March 2002, the number of shares issuable under share options granted under the Scheme was 53,434,000, which represented approximately 1.09% of the Company's shares in issue as at that date. No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares of the time being issued and issuable under the Scheme.

# REPORT OF THE DIRECTORS

## Directors' Rights to Acquire Shares or Debentures (continued)

### Share option scheme (continued)

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date upon which the offer of the share options is accepted or the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the Company's shares.

The Stock Exchange has introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. An option granted shall be subject to the new changes which include, inter alia, the following:

- (a) the maximum number of shares issuable under the share option to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;
- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors; and
- (c) the exercise price of the share options is determined by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the shares on the date of grant of the shares options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

The Company shall adopt a new share option scheme in due course to comply with the requirements of the amended Listing Rules on share option schemes. Up to the date of this report, certain options were granted to an employee of the Group pursuant to the new requirements.

# REPORT OF THE DIRECTORS

## Directors' Rights to Acquire Shares or Debentures (continued)

### Share option scheme (continued)

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

Name or category of participant	Number of share options				At 31 March 2002 '000	Date of grant of share options*	Exercise period of share options	Exercise price of share options**		Price of Company's shares at grant date of options*** HK\$
	At 1 April 2001 '000	Granted during the year '000	Adjustment due to the consolidation of shares '000	Cancelled during the year '000				At date of grant of share options HK\$	At 31 March 2002 HK\$	
<b>Directors</b>										
Wong Chung Hung, Vincent	12,000	—	(10,800)	(1,200)	—	27-11-1998	1-12-1998 to 30-11-2008	0.177	N/A	—
Wong Fong Yee, Elisa	22,000	—	—	(22,000)	—	27-11-1998	1-12-1998 to 30-11-2008	0.177	N/A	—
Li Man Leung	—	267,170	(240,453)	—	26,717	14-5-2001	15-5-2001 to 14-5-2011	0.010	0.100	0.018
Lai Hok Lim	—	267,170	(240,453)	—	26,717	14-5-2001	15-5-2001 to 14-5-2011	0.010	0.100	0.018
	<u>34,000</u>	<u>534,340</u>	<u>(491,706)</u>	<u>(23,200)</u>	<u>53,434</u>					
<b>Other employees</b>										
In aggregate	130,000	—	—	(130,000)	—	5-1-2000	5-1-2000 to 4-1-2010	0.092	N/A	—
	80,000	—	—	(80,000)	—	27-3-2000	27-3-2000 to 26-3-2010	0.062	N/A	—
	120,000	—	(108,000)	(12,000)	—	18-5-2000	18-5-2000 to 17-5-2010	0.036	N/A	—
	—	470,000	(423,000)	(47,000)	—	10-5-2001	11-5-2001 to 10-5-2011	0.010	N/A	0.010
	—	267,170	(240,453)	(26,717)	—	14-5-2001	15-5-2001 to 14-5-2011	0.010	N/A	0.010
	<u>330,000</u>	<u>737,170</u>	<u>(771,453)</u>	<u>(295,717)</u>	<u>—</u>					
	<u>364,000</u>	<u>1,271,510</u>	<u>(1,263,159)</u>	<u>(318,917)</u>	<u>53,434</u>					

# REPORT OF THE DIRECTORS

## Directors' Rights to Acquire Shares or Debentures (continued)

### Share option scheme (continued)

- \* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- \*\* The exercise price of the share options is subject to adjustment in the case of 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 grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.

Summary details of the Company's share option scheme are also set out in note 23 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. Share 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 directors and employees, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.



# REPORT OF THE DIRECTORS

## Substantial Shareholders

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

Name of shareholder	Number of shares of HK\$0.01 each held	Percentage of the Company's issued share capital
Fortuna Investments Group Limited	900,000,000	18.39%
Goldworld Development Limited	900,000,000	18.39%

Note: These shares represent the same parcel of shares, further details of which are included in the section of "Directors' interests in securities".

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

## Connected Transactions

During the financial year, the Company had entered into the following connected transactions:

On 23 March 2001, the Company entered into two share exchange agreements with vLink Global Limited ("vLink"), an independent third party listed in Hong Kong. Pursuant to the share exchange agreements, the Company agreed (i) to issue 3,421,220,000 new ordinary shares of the Company at a price of HK\$0.01 each in exchange for 42,765,250 new ordinary shares of vLink at a price of HK\$0.80 each (the "First Share Exchange"); and (ii) to issue 5,131,830,000 new ordinary shares of the Company at a price of HK\$0.01 each in exchange for 171,061,000 new ordinary shares of vLink at a price of HK\$0.30 each (the "Second Share Exchange"). On the same date, a wholly-owned subsidiary of vLink (the "Related Creditor") granted a loan facility to the extent of HK\$29.5 million to the Group (the "First Facility").

The First Share Exchange was completed on 28 March 2001 and accordingly, vLink became one of the Company's substantial shareholders on the same date. The Second Share Exchange was completed on 10 May 2001.

# REPORT OF THE DIRECTORS

## Connected Transactions (continued)

In addition to the First Facility, the Related Creditor further granted two loan facilities to the Group during the financial year. During the financial year, pursuant to these facilities, the Group drew down an aggregated amount of HK\$49.5 million from the Related Creditor (the “Loans”). The Loans were unsecured (except for a loan of HK\$29.5 million which was secured by the Group’s entire interest in a subsidiary, certain properties held for sale and an other investment), bore interest at Hong Kong dollar prime rate plus 4% to 5% per annum and were fully settled during the financial year. The related interest expenses amounted to HK\$2,934,000 for the current financial year.

During the financial year, vLink partially disposed of its equity interest in the Company and ceased to be a substantial shareholder of the Company.

## Compliance with Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the financial year, except that the independent non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company’s bye-laws.

## Disclosure Requirements of Practice Note 19

In accordance with the requirements under paragraph 3.3 of Practice Note 19 (the “PN19”) of the Listing Rules, the directors of the Company reported below financial assistance given to an affiliated company (as defined by the PN19) as at 31 March 2002.

The financial assistance given to an associate, Speed World Investment Limited, in which the Group holds 30% equity interest, represented 1,262% of the consolidated net tangible assets of the Group as at 31 March 2002.

# REPORT OF THE DIRECTORS

## Disclosure Requirements of Practice Note 19 (continued)

The balance sheet of and the Company's attributable interest in the associate as at 31 December 2001 (being the latest practicable date for this report) disclosed in accordance with paragraph 3.10 of PN19 are as follows:

	<b>Balance at 31 December 2001 HK\$'000</b>	<b>The Company's attributable interest HK\$'000</b>
<b>NON-CURRENT ASSETS</b>		
Fixed assets	205	62
Properties under development	1,081,336	324,401
	<u>1,081,541</u>	<u>324,463</u>
<b>CURRENT ASSETS</b>		
Other receivables	20,374	6,112
Amount due from a fellow subsidiary	1	—
Cash and bank balances	29,299	8,790
	<u>49,674</u>	<u>14,902</u>
<b>CURRENT LIABILITIES</b>		
Trade payables, other payables and accrued liabilities	81,224	24,367
Amount due to immediate holding company	816,950	245,085
Amount due to ultimate holding company	87	26
Amounts due to other shareholders	345,936	103,781
	<u>1,244,197</u>	<u>373,259</u>
<b>NET CURRENT LIABILITIES</b>	<u>(1,194,523)</u>	<u>(358,357)</u>
	<u>(112,982)</u>	<u>(33,894)</u>

# REPORT OF THE DIRECTORS

## Secured Other Loans

As disclosed in note 22 to the financial statements, a subsidiary of the Group is in the course of negotiating with a financial creditor in respect of secured other loans claimed of HK\$348 million as at 31 March 2002.

## Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 30 to the financial statements.

## 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

**Kwong Kai Sing, Benny**

*Chairman*

Hong Kong, 26 July 2002