



# Directors' Report

## DIRECTORS' REPORT

The directors present their first report and the audited financial statements of the Company for the period from 4th April, 2001 (date of incorporation) to 30th June, 2002 and of the Group for the year ended 30th June, 2002.

## GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 4th April, 2001. Pursuant to a scheme of arrangement sanctioned by the High Court of The Hong Kong Special Administrative Region which became effective on 20th December, 2001, the Company issued its shares to the shareholders of iQuorum Cybernet Limited ("iQuorum"), the former holding company of the Group, in exchange for the entire issued share capital of iQuorum. iQuorum then became a wholly owned subsidiary of the Company and its listing status on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") was withdrawn. The shares of the Company were listed on the Stock Exchange on the same day. Details of the Group Reorganisation are set out in note 2 to the financial statements.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company and its principal subsidiaries are engaged in the manufacture and trading of electronic products and property investment. The Group's head office is in Hong Kong and all of its manufacturing operations are located in the People's Republic of China.

## RESULTS AND APPROPRIATIONS

The Group's results for the year are set out in the consolidated income statement on page 25.

The directors do not recommend the payment of a dividend for the year.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 45% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 15%.

The aggregate sales attributable to the Group's five largest customers was approximately 72% and the sales attributable to the Group's largest customer was approximately 24%.

None of the directors, their associates or shareholders which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any beneficial interest in the five largest suppliers or customers of the Group.

## SHARE CAPITAL AND WARRANTS

Details of movements during the period in the share capital and warrants of the Company are set out in notes 25 and 26 to the financial statements, respectively.



## RESERVES

Details of movements during the year/period in the reserves of the Group and of the Company are set out in note 27 to the financial statements.

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired investment properties at an aggregated consideration of approximately HK\$61,822,000.

The investment properties of the Group were revalued on 30th June, 2002 by an independent firm of professional property valuers on an open market value basis, and the resulting deficit on revaluation of these properties amounting to approximately HK\$11,322,000 has been charged directly to the investment property revaluation reserve. Details of these and other movements in the investment properties of the Group during the year are set out in note 11 to the financial statements.

Details of movements during the year in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

## MAJOR PROPERTIES

Details of the major properties of the Group as at 30th June, 2002 are set out on page 68.

## DIRECTORS

The directors of the Company during the period and up to the date of this report, who were all appointed on 4th May, 2001, were:

### *Executive directors:*

Mrs. Hung Wong Kar Gee, Mimi (*Chairman*)  
Mr. Hung Kin Sang, Raymond  
Mr. Fang Chin Ping

### *Independent non-executive directors:*

Mr. Lun Tsan Kau  
Mr. Lo Yun Tai

In accordance with Articles 87 and 88 of the Company's Bye-laws, Mr. Fang Chin Ping, will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election. All of the remaining directors will continue in office.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.



## Directors' Report

### CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of discloseable connected transactions for the period are as follows:

- (a) At 30th June, 2002, Mr. Hung Kin Sang, Raymond, a director of the Company, had outstanding guarantees issued in favour of a bank in respect of credit facilities granted by the bank to a subsidiary amounting to approximately HK\$3,229,000. In addition, Mr. Hung Kin Sang, Raymond and Mrs. Hung Wong Kar Gee, Mimi, directors of the Company, had outstanding joint and several guarantees issued in favour of a bank in respect of credit facilities granted by the bank to a subsidiary amounting to approximately HK\$25,900,000.
- (b) During the year, the aggregate value of the transactions entered into by RJP International Limited, a wholly-owned subsidiary of the Company, pursuant to the Contract Manufacture Agreement described in the Circular to Shareholders dated 26th August, 1996 did not exceed HK\$160.9 million for the twelve months ended 30th June, 2002.

In accordance with the conditions agreed with the Stock Exchange with respect to connected transactions, the independent non-executive directors of the Company have reviewed the connected transactions set out above and have confirmed that the transactions were carried out in accordance with the terms of the relevant agreement, or if the transaction is not governed by an agreement:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

Save as disclosed above:

- (i) no contracts of significance subsisted at the end of the period or at any time during the period 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; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").



## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

### (a) 1991 Scheme

iQuorum, the former holding company of the Group, had a share option scheme ("1991 Scheme"), which was adopted pursuant to a resolution passed on 6th September, 1991 for the primary purpose of providing incentives to directors and eligible employees. Under the 1991 Scheme, the Board of Directors of iQuorum may grant options to eligible employees, including executive directors of iQuorum and its subsidiaries, to subscribe for shares in iQuorum.

The total number of shares in respect of which options may be granted under the 1991 Scheme is not permitted to exceed 10% of the iQuorum shares in issue at any point in time excluding any shares issued pursuant to the 1991 Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the number of shares issued and issuable under the 1991 Scheme.

Options granted must be taken up within 21 days of the date of grant. Options may be exercised as specified by the directors of iQuorum, which shall not be more than ten years from its date of grant. The exercise price is determined by the directors of iQuorum, any will not be less than the higher of the 80% of the average closing price of iQuorum's shares for the five business days immediately preceding the date of grant, and the nominal value of iQuorum's shares. No options were granted or exercised during the year. The 1991 Scheme expired on 5th September, 2001.

### (b) 2002 Scheme

On 16th September, 2002, the Company adopted a new share option scheme ("2002 Scheme") for the primary purpose of providing incentives to directors and eligible employees. The 2002 Scheme will expire on 15th September, 2012. Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed the higher of 10% of the shares of the Company in issue as at the date of adoption of the 2002 Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 1% of the number of shares issued and issuable under the 2002 Scheme or any other limit as may be permitted under the Listing Rules.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will be less than the higher of (i) the closing price of the Company's share on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

No option has been granted or exercised under the 2002 Scheme since its adoption.



## Directors' Report

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES (*cont'd*)

#### (c) AIHL

Pursuant to the share option scheme of the Company's ultimate holding company, Applied International Holdings Limited ("AIHL"), the Company's directors have been granted options ("AIHL Option") to subscribe for shares in AIHL.

Details of the AIHL Options granted to the Company's directors to subscribe for shares in AIHL are as follows:

<u>Name of director</u>	<u>Exercise price</u> <i>HK\$</i>	<u>Number of AIHL shares subject to AIHL Options outstanding at 1.7.2001 and 30.6.2002</u>
Hung Wong Kar Gee, Mimi	0.36	7,000,000
Hung Kin Sang, Raymond	0.36	8,400,000

The outstanding AIHL Options are exercisable at any time on or before 2nd July, 2002. The AIHL Options lapsed on 2nd July, 2002.

Save as disclosed above, at no time during the period was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate, and none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such rights, during the period.



## DIRECTORS' INTERESTS IN SHARES

According to the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code For Securities Transactions by Directors of Listed Companies in the Listing Rules, the interests of the directors and their associates in the issued share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) at 30th June, 2002 were as follows:

### (a) The Company

<u>Name of director</u>	<u>Number of shares of the Company held under corporate interests</u>	<u>Number of warrants of the Company held under corporate interests</u>
	<i>(Note)</i>	<i>(Note)</i>
Hung Wong Kar Gee, Mimi	861,887,920	59,202,503
Hung Kin Sang, Raymond	861,887,920	59,202,503

*Note:* 604,263,167 shares and 58,702,517 warrants were held by Batimate Limited, and 1,118 shares and 111 warrants were held by Applied Electronics Limited, both of which are wholly-owned subsidiaries of AIHL. The remaining 257,623,635 shares and 499,875 warrants were held by AIHL. Mrs. Hung Wong Kar Gee, Mimi and Mr. Hung Kin Sang, Raymond are the substantial shareholders of AIHL.

### (b) Subsidiary

At 30th June, 2002, Mr. Fang Chin Ping, director of the Company, held 200,000 ordinary shares of Quorum Bio-tech Limited, a subsidiary of the Company.



## Directors' Report

### DIRECTORS' INTERESTS IN SHARES (cont'd)

#### (c) AIHL

Name of director	Number of AIHL shares		Number of AIHL warrants	
	Personal interests	Other interests	Personal interests	Other interests
Hung Wong Kar Gee, Mimi	8,870,056	453,984,584 (Note)	1,774,011	90,796,916 (Note)
Hung Kin Sang, Raymond	3,280,000	453,984,584 (Note)	560,000	90,796,916 (Note)
Fang Chin Ping	100,000	–	20,000	–

Note: These shares and warrants were held by the following companies:

	Number of ordinary shares	Number of warrants
Malcom Trading Inc.	43,992,883	8,798,576
Primore Co. Inc.	2,509,266	501,853
Capita Inc.	359,153,435	71,830,687
iQuorum Cybernet Limited	48,329,000	9,665,800
	<u>453,984,584</u>	<u>90,796,916</u>

Malcom Trading Inc., Primore Co. Inc. and Capita Inc. are wholly-owned by Marami Foundation as the trustee of Raymond Hung/Mimi Hung & Family Trust. All units in Raymond Hung/Mimi Hung & Family Trust are beneficially owned by a discretionary trust, the beneficiaries of which include the family members of Hung Kin Sang, Raymond and Hung Wong Kar Gee, Mimi.

Save as disclosed herein and other than certain nominee shares in the subsidiaries held in trust for the Group, none of the directors, chief executives or their associates had any interests in the securities of the Company or any of its associated corporations within the meaning of the SDI Ordinance as at 30th June, 2002.

#### SUBSTANTIAL SHAREHOLDERS

Other than the interests of AIHL and Batimate Limited disclosed under the heading "Directors' interests in shares" above, according to the register required to be kept under Section 16(1) of the SDI Ordinance, there was no other shareholder who was interested in 10% or more of the share capital of the Company as at 30th June, 2002.



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

During the year, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries.

## **DONATIONS**

During the year, the Group made charitable and other donations of approximately HK\$53,000.

## **CORPORATE GOVERNANCE**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules since the listing of its shares on the Stock Exchange on 20th December, 2001.

## **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.

## **AUDITORS**

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

On behalf of the Board

**Hung Kin Sang, Raymond**

*Director*

Hong Kong, 25th October, 2002