

The directors present their annual report and the audited financial statements for the year ended 30th June, 2002.

### **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The Group is principally engaged in the design, manufacture, marketing and distribution of consumer electronic products and property and investment holding and property development. The activities of the principal subsidiaries are set out in note 15 to the financial statements.

### **RESULTS AND APPROPRIATION**

The results of the Group for the year are set out in the consolidated income statement on page 29.

No interim dividend was paid to shareholders during the year. The directors do not recommend the payment of a final dividend.

### **MAJOR SUPPLIERS AND CUSTOMERS**

During the year, the aggregate purchases attributable to the Group's five largest suppliers and the largest supplier were 33% and 9% of the total purchases, respectively. The aggregate sales attributable to the Group's five largest customers and the largest customer were 53% and 16% of total sales, respectively.

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

### **RESERVES**

Details of movements during the year in the reserves of the Group and of the Company are set out in note 28 to the financial statements.

### **INVESTMENT PROPERTIES**

During the year, the Group disposed of certain investment properties with an aggregate carrying values amounting to HK\$81,076,000. The remaining investment properties of the Group were revalued at 30th June, 2002 by an independent firm of professional property valuers on an open market value basis, resulting in a deficit on revaluation of these properties amounting to HK\$11,713,000.

Details of these and other movements during the year in the investment properties of the Group are set out in note 12 to the financial statements.

**PROPERTY, PLANT AND EQUIPMENT**

Details of movements during the year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

**MAJOR PROPERTIES**

Details of the major properties of the Group at 30th June, 2002 are set out on pages 80 to 82.

**SHARE CAPITAL, WARRANTS AND SHARE OPTIONS**

Details of the share capital, warrants and share options of the Company are set out in note 26 to the financial statements.

**DIRECTORS**

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

**Executive:**

Hung Kin Sang, Raymond (*Chairman and Managing Director*)

Hung Wong Kar Gee, Mimi

Fang Chin Ping

**Non-executive:**

Soo Hung Leung, Lincoln

**Independent Non-executive:**

Lo Yun Tai

Lun Tsan Kau

In accordance with Clause 112(A) of the Company's Bye-Laws, Mr. Soo Hung Leung, Lincoln retires and, being eligible, offers himself for re-election. All remaining directors will continue in office. The terms of office of the non-executive directors are the periods up to their retirement by rotation in accordance with the Company's Bye-Laws.

The director being proposed for re-election at the forthcoming annual general meeting does not have any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

- (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 of the Company amounting to HK\$3,229,000. In addition, Mr. Hung Kin Sang, Raymond and Madam Hung Wong Kar Gee, Mimi, a director 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 HK\$25,900,000.
- (b) During the year, the aggregate value of the transactions entered into by RJP International Limited, a non-wholly-subsiary of the Company, pursuant to a contract manufacture agreement described in the circular to shareholders of the Company dated 26th August, 1996 did not exceed HK\$160.9 million for the year ended 30th June, 2002.

**DIRECTORS' INTERESTS IN SHARES AND WARRANTS**

At 30th June, 2002, the interests of the directors and their associates in the share capital and warrants of the Company and 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 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 the Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of directors	Number of ordinary shares			Number of warrants		
	Personal interests	Other interests	Corporate interests	Personal interests	Other interests	Corporate interests
Hung Kin Sang, Raymond	3,280,000	405,665,584 <i>(Note)</i>	48,329,000 <i>(Note)</i>	560,000	81,131,116 <i>(Note)</i>	9,665,800 <i>(Note)</i>
Hung Wong Kar Gee, Mimi	8,870,056	405,665,584 <i>(Note)</i>	48,329,000 <i>(Note)</i>	1,774,011	81,131,116 <i>(Note)</i>	9,665,800 <i>(Note)</i>
Fang Chin Ping	100,000	-	-	20,000	-	-
Soo Hung Leung, Lincoln	1,100,000	-	-	220,000	-	-

**DIRECTORS' INTERESTS IN SHARES AND WARRANTS (Cont'd)**

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

	<b>Number of ordinary shares</b>	<b>Number of warrants</b>
Malcom Trading Inc.	43,992,883	8,798,576
Primore Co. Inc.	2,509,266	501,853
Capita Company Inc.	359,153,435	71,830,687
iQuorum Cybernet Limited ("iQuorum")	48,329,000	9,665,800

Malcom Trading Inc., Primore Co. Inc. and Capita Company Inc. are wholly-owned by the 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 Mr. Hung Kin Sang, Raymond and Madam Hung Wong Kar Gee, Mimi.

iQuorum is a wholly-owned subsidiary of Applied (China) Limited ("ACL"), a company which shares are listed on the Stock Exchange and the Group held 861,887,920 shares and 59,202,503 warrants at 30th June, 2002. The above directors have indirect interests in ACL.

At 30th June, 2002, Mr. Fang Chin Ping held 200,000 ordinary shares of Quorum Bio-tech Limited, a 66.7% owned subsidiary of the Company.

Save as disclosed above and other than certain nominee shares in subsidiaries held in trust for the Company by certain directors at 30th June, 2002, none of the directors or their associates had any personal interests, family interests, corporate interests or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

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

**(a) Share options in the Company**

***1997 Scheme***

The Company's share option scheme adopted on 28th May, 1997 (the "1997 Scheme") for the primary purpose of providing incentives to directors and eligible employees and was terminated on 16th September, 2002.

Under the 1997 Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant.

The exercise price is determined by the directors of the Company, and is the higher of the nominal value of the Company's shares and an amount which is not less than 80% of the average closing price of the shares for the five trading days immediately preceding the option is granted.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES** (Cont'd)

(a) **Share options in the Company** (Cont'd)

**1997 Scheme** (Cont'd)

At 30th June, 2002, the number of shares in respect of which options had been granted and remained outstanding under the 1997 Scheme was 15,400,000 shares, representing 1.6% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1997 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time.

Options granted under the 1997 Scheme are exercisable within a period of five years from the date the options are granted. There were no movements in share options granted under the 1997 Scheme during the year.

Details of share options granted under the 1997 Scheme to the directors of the Company are as follows:

Name of directors	Date of grant	Exercise price <i>HK\$</i>	Options outstanding at 1.7.2001 and 30.6.2002
Hung Kin Sang, Raymond	3rd July, 1997	0.36	8,400,000
Hung Wong Kar Gee, Mimi	3rd July, 1997	0.36	7,000,000

The outstanding share options can be exercised at any time on or before 2nd July, 2002.

**2002 Scheme**

On 16th September, 2002, the Company adopted a new share option scheme (the "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.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES** (Cont'd)**(a) Share options in the Company** (Cont'd)***2002 Scheme*** (Cont'd)

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 under the 2002 Scheme since its adoption.

**(b) Share options in ACL*****ACL 1991 Scheme***

ACL's share option scheme adopted on 6th September, 1991 (the "ACL 1991 Scheme") for the primary purpose of providing incentives to directors and eligible employees and expired on 5th September, 2001.

Under the ACL 1991 Scheme, the board of directors of ACL may grant options to eligible employees, including directors of ACL and its subsidiaries, to subscribe for shares in ACL for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 21 days from the date of grant.

The exercise price is determined by the directors of ACL, and is the higher of the nominal value of ACL's shares and an amount which is not less than 80% of the average closing price of the shares for the five trading days immediately preceding the option is granted.

The total number of shares in respect of which options may be granted under the ACL 1991 Scheme is not permitted to exceed 10% of the shares of ACL in issue at any point in time.

Options granted under the ACL 1991 Scheme are exercisable within a period of three years from the date the options are granted.

There were no share options granted or exercised during the year or outstanding at 1st July, 2001 and 30th June, 2002.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES** (Cont'd)

### **(b) Share options in ACL** (Cont'd)

#### ***ACL 2002 Scheme***

On 16th September, 2002, ACL adopted a new share option scheme (the "ACL 2002 Scheme"). The details of the ACL 2002 Scheme are the same as the 2002 Scheme of the Company.

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

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

## **SUBSTANTIAL SHAREHOLDERS**

Other than the interests disclosed above under the heading "Directors' interests in shares and warrants" in respect of certain directors, the register of substantial shareholders kept by the Company under Section 16(1) of the SDI Ordinance discloses no person as having an interest in 10% or more of the issued share capital of the Company as at 30th June, 2002.

## **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.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

There was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year.

## **DONATIONS**

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

## **CORPORATE GOVERNANCE**

In the opinion of the directors, the Company has complied throughout the year ended 30th June, 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

**AUDITORS**

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**  
*Chairman and Managing Director*

Hong Kong, 25th October, 2002