

## Report of the Directors

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

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries comprise the trading and manufacturing of plastic and chemical products, distribution and installation of building supplies, electrical and mechanical products, wholesaling of electrical appliances, engineering contracting business in the air-conditioning industry and the provision of maintenance services, property and investment holding. Details of the principal subsidiaries and their activities are set out in note 15 to the financial statements.

An analysis of the Group's turnover by principal activities and geographical area of operations and an analysis of the Group's results by principal activities for the year ended 31 December 2002 are set out in note 4 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 80.

The directors do not recommend the payment of any dividend in respect of the year (2001: Nil).

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Liquidity and financial resources

Total interest-bearing debts of the Group at year-end amounted to HK\$165 million (2001: HK\$164 million), of which HK\$101 million (2001: HK\$84 million) related to trust receipt loans. Approximately 92% of the debts were due and repayable within one year. Current ratio of the Group at year-end, as measured by total current assets over total current liabilities, was 1.23.

Total cash on hand dropped from HK\$62 million as at 31 December 2001 to HK\$42 million as at 31 December 2002. The Group had a total of HK\$155 million committed but undrawn banking facilities at year-end available for its working capital purpose.

In January 2002, the Group placed 550 million new shares to a major shareholder at a price HK\$0.025 each. The increase in shareholders' funds of HK\$13 million through share placement was set off by the net loss of HK\$58 million for the year. As a result, total shareholders' funds of the Group diminished from HK\$180 million at the beginning of the year to HK\$135 million at year end. The gearing ratio of the Group, as measured by the net interest-bearing debts of HK\$123 million over the shareholders' funds of HK\$135 million, was 91% as at 31 December 2002.

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### MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

#### Use of placement proceeds

As disclosed in last year annual report, there were remaining cash proceeds of HK\$26 million from shares placed in 1999, which usage has been altered from the purpose of investing in technology and telecommunication related business to the purpose of applying for loan repayment and working capital of the Group. During the year, the Group had fully applied the remaining proceeds for loan repayment and working capital purposes.

The proceeds of HK\$13 million generated from share placement in January 2002 have been fully applied for loan repayment and working capital purposes, as originally intended.

#### Funding and treasury policy

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group.

#### Pledge of assets

Certain properties, having an aggregate book value of HK\$48 million as at 31 December 2002, were pledged to secure the borrowings of the Group.

#### Contingent liabilities

The Group was contingently liable in respect of a bank guarantee given in favour of banking facilities granted to an associate of the Group. As at 31 December 2002, the outstanding bank loan of the associate was approximately HK\$130.8 million (31 December 2001: HK\$190 million). As a result of the impairment of the carpark assets held by the associate, the Group has made a provision to cover its probable liabilities arising from the estimated shortfall of the guaranteed bank loan against the market value of the carpark assets.

During the year, the Group advanced approximately HK\$16 million to the associate out of its internal resources to fund for the repayment of the bank loan. This resulted in an aggregate unsecured and interest-free advance of HK\$85 million to the associate, which has been fully provided for in each of the accounting periods since 1998. The additional provision for impairment in the Group's interests in associates of HK\$16 million for the current year was transferred from the provision for corporate guarantee.

Having regard to the portion of the outstanding bank loan guaranteed by the Group, the contingent liability of the Group under the bank guarantee was HK\$60 million at the balance sheet date (31 December 2001: HK\$76 million). Out of which, the liability was provided as provision for corporate guarantee up to the extent of HK\$16 million (31 December 2001: HK\$22.8 million).

The Group had no other significant contingent liability at the balance sheet date.

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### MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

#### Employees and remuneration policies

The Group employed approximately 300 staff in Hong Kong and other parts of the PRC as at 31 December 2002. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff. A share option scheme was adopted in 1993 to enable the directors to grant share options to selected employees as incentives.

#### Business and operations review

A detailed review of the Group's business operations and outlook is included in the Chairman's Statement.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

#### Results

	Year ended 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	<b>828,252</b>	687,671	614,189	812,603	1,505,340
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	<b>(58,407)</b>	(129,052)	(22,552)	(236,321)	(300,624)

#### Assets, liabilities and minority interests

	As at 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TOTAL ASSETS	<b>433,995</b>	480,040	590,347	604,655	602,195
TOTAL LIABILITIES	<b>(297,657)</b>	(298,324)	(292,291)	(257,053)	(549,966)
MINORITY INTERESTS	<b>(1,274)</b>	(1,797)	(1,503)	(1,446)	(861)
NET ASSETS	<b>135,064</b>	179,919	296,553	346,156	51,368

The information set out above does not form part of the audited financial statements.

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## Report of the Directors

### FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 32 and 33 to the financial statements, respectively.

### 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 THE COMPANY'S LISTED SHARES

During the year, the Company did not redeem, and neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed shares.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity.

### DISTRIBUTABLE RESERVES

Under the laws of Bermuda, the Company's share premium account, in the amount of HK\$562,724,000, may be distributed in the form of fully paid bonus shares. Other than the share premium account, the Company did not have any reserves available for distribution to shareholders as at 31 December 2002.

### MAJOR CUSTOMERS AND SUPPLIERS

Both the aggregate amounts of turnover and purchases attributable to the Group's five largest customers and suppliers for the year were less than 30% of the Group's total turnover and purchases, respectively.

## Report of the Directors

### DIRECTORS

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

*Executive directors:*

James Sai-Wing Wong (*Chairman*)

Stephen Sek-Kee Yu

Frank Kwok-Kit Chu

Peter Chi-Chung Luk

*Non-executive directors:*

Herman Man-Hei Fung

Kenneth Kin-Hing Lam

*Independent non-executive directors:*

Aubrey Kwok-Sing Li

William Gage McAfee

In accordance with Company's Bye-law 87, Stephen Sek-Kee Yu and Kenneth Kin-Hing Lam will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### BIOGRAPHIES OF DIRECTORS

Biographical details of the directors of the Company are set out on pages 12 to 14 of the annual report.

### DIRECTORS' SERVICE CONTRACTS

No director has a service contract with any member of the Group which is not determinable within one year without payment other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 36 to the financial statements, none of the directors had a material 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 year.

## Report of the Directors

### DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

At 31 December 2002, the directors of the Company and their respective associates had interests in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as follows:

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Number of options beneficially held</b>
James Sai-Wing Wong	Corporate (Note)	961,957,982	–
Stephen Sek-Kee Yu	Personal	–	14,250,000
Frank Kwok-Kit Chu	Personal	1,206,000	9,200,000
	Family	1,196,000	–
Peter Chi-Chung Luk	Personal	–	4,000,000
	Family	320,000	–
Herman Man-Hei Fung	Personal	–	8,000,000
Kenneth Kin-Hing Lam	Personal	276	10,400,000

Note: These shares are held by Multi-Investment Group Limited, a company in which James Sai-Wing Wong is a director and has a beneficial interest.

Other than the holdings disclosed above, no interests were held or deemed or taken to be held (under the SDI Ordinance) by any director of the Company or their respective associates in any equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein.

### SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

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### SUBSTANTIAL SHAREHOLDERS

Shown below are the names of all parties which were directly or indirectly interested in 10% or more of the issued share capital of the Company and the respective number of shares in which they were and/or were deemed to be interested as at 31 December 2002 as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of substantial shareholder	Number of ordinary shares	Percentage of shareholding
James Sai-Wing Wong	961,957,982	29.1%
Madeline May-Lung Wong	961,957,982	29.1%
Lucky Year Finance Limited	961,957,982	29.1%
Chinney Holdings Limited	961,957,982	29.1%
Chinney Investments, Limited	961,957,982	29.1%
Newsworthy Resources Limited	961,957,982	29.1%
Multi-Investment Group Limited	961,957,982	29.1%

*Note:* For the avoidance of double counting, it should be noted that in accordance with Sections 8(2), (3) and (4) of the SDI Ordinance, James Sai-Wing Wong, Madeline May-Lung Wong, Lucky Year Finance Limited, Chinney Holdings Limited, Chinney Investments, Limited and Newsworthy Resources Limited were deemed to be interested in the same parcel of 961,957,982 shares held by Multi-Investment Group Limited by virtue of their respective interest in that company.

### CORPORATE GOVERNANCE

Regular meetings have been held by the audit committee of the Company since its establishment and it meets at least twice each year to review and supervise the Group's financial reporting process and internal controls. The audit committee has reviewed with management the final results of the Group for the year ended 31 December 2002.

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2002, in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules, except that the non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

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### 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

**Peter Chi-Chung Luk**

*Director*

Hong Kong, 15 April 2003