

# Report of Directors

The board of directors (the “**Directors**”) of the Company presents this report together with the audited financial statements of the Company and its subsidiaries (the “**Group**”) for the year ended 31st December, 2002.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries for the year ended 31st December, 2002 are the operating of the indoor family entertainment games centres (the “**entertainment centres**”) as well as the manufacturing and selling of automobile axles in the People’s Republic of China (the “**PRC**”).

## TURNOVER AND CONTRIBUTION BY ACTIVITY AND LOCATION

The turnover and operating loss before tax of the Group by location and by nature of business for the year ended 31st December, 2002 are as follows:

	Turnover HK\$'000	Contribution to operating loss HK\$'000
Analysis by location:		
Hong Kong and other	–	57,295
PRC	15,445	1,676
	<u>15,445</u>	<u>58,971</u>
Unallocated items		535
		<u>58,436</u>
Analysis by nature of business:		
Self-operated games centres	9,387	72
Sales of automobile axles	6,058	1,604
Investment holding and others	–	57,295
Unallocated items	–	535
	<u>15,445</u>	<u>58,436</u>

## FINANCIAL RESULTS

The results for the Group for the year ended 31st December, 2002, are set out in the financial statements on page 26.

# Report of Directors

## MANAGEMENT DISCUSSIONS AND ANALYSIS

Turnover for the fiscal year ended 31st December, 2002 totalled HK\$15,445,000, an increase of 8% over the same period in 2001. The increase was a result of the resumption of operation of Shenyang Liao Hua Automobile Axles Company Ltd. (“Shenyang JV”), a sino-foreign joint venture engaged in the manufacturing and sale of automobile axles business in the PRC and is owned as to 51% by the Group and 49% by PRC party. The loss attributed to shareholders increased by approximately 66.4% from HK\$35,110,000 to HK\$58,437,000. During the period under review, the Group was operating under exceptionally harsh market conditions and suffered from internal conflict within the board of directors of the Company in composition prior to 22nd November, 2002. With a new composition of the board of directors, the Company is now able to centralize its efforts in improving business operations to the benefit of the Company and its shareholders.

Despite the unfavourable operating results, the Group’s liquidity and financial resource remained strong. The Group had cash and bank balances of approximately HK\$124 million (2001: HK\$190 million) and without any loan liability. (2001: HK\$1.86 million).

The Group will continue to reinforce its financial position so that the Company is fully prepared to seize new and attractive investment opportunities whenever the appropriate opportunities emerge. Meanwhile, the directors are considering expanding its presence in the fast-growing automotive market in the PRC, the feasibility of expanding the Group’s operations into other areas, such as biotechnological field and seeking investment opportunity in capital markets.

## LIQUIDITY AND FINANCIAL RESOURCES

The cash flow position of the Group for the year ended 31st December, 2002 is set out and analysed on page 30 to the financial statements.

## DIVIDEND

The Directors do not recommend the payment of final dividend for year ended 31st December, 2002 (2001: Nil), and the Company did not pay any interim dividend during the year under review.

## **FIVE-YEAR FINANCIAL SUMMARY**

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 56.

## **RESERVES**

Movements in the reserves of the Group and the Company for the year ended 31st December, 2002 are set out in note 21 to the financial statements.

## **FIXED ASSETS**

The movements of tangible fixed assets of the Group for the year ended 31st December, 2002 are set out in note 12 to the financial statements.

## **SHARE CAPITAL**

The details of issued share capital for the year ended 31st December, 2002 are set out in note 19 to the financial statements.

## **SUBSIDIARIES**

Details of the Company's subsidiaries as at 31st December, 2002 are set out in note 13 to the financial statements.

## **RETIREMENT SCHEMES**

Particulars of retirement schemes are set out in note 25 to the financial statements.

# Report of Directors

## DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2002 and up to the date of this report are:

### Executive directors

	Date of appointment	Date of resignation	Date of removal
Mr. Yung Yeung <i>(Chairman)</i>			
Mr. Chunhua Huang <i>(Deputy Chairman and Chief Financial Officer)</i>			
Mr. Jun Li <i>(Chief Executive Officer)</i>			
Mr. Brett David Braude	22nd November, 2002	10th January, 2003	
Mr. Mark Alan Loynd	22nd November, 2002	10th January, 2003	
Mr. Peter Mills	22nd November, 2002	10th January, 2003	
Mr. Jonathan Edward Spencer Rostron	22nd November, 2002	20th January, 2003	
Ms. Wing Kee Wong	22nd November, 2002	10th January, 2003	
Mr. Damien Aquinas Laracy	22nd November, 2002	20th January, 2003	
Mr. Siu On Ng			22nd November, 2002
Mr. Keung So			22nd November, 2002
Mr. Xing Hong			22nd November, 2002
Mr. Maozeng Yang			22nd November, 2002
Mr. To Ho			22nd November, 2002
Mr. Tung Sun			22nd November, 2002

### Independent non-executive directors:

Mr. Jian Wang	11th April, 2003	
Mr. Banjie He	11th April, 2003	
Mr. Min Li Yi		11th April, 2003
Madam Chu Qing Yao		11th April, 2003

Messrs. Chunhua Huang, Jian Wang and Banjie He will retire by rotation in accordance with clause 87(1) and (2) of the bye-laws of the Company at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Cap. 396) of the laws of Hong Kong in force in the year under review (the "SDI Ordinance") showed, that each of the following persons has an interest of 10 per cent. or more in the share capital of the Company:

Name	Note	Number of shares beneficially held	Percent. of shareholding
Daiweldo Group Limited ("DWD")		630,304,400	49.88
Daiweldo Foundation Limited	1	630,304,400	49.88
Pure Shine Limited ("Pure Shine")		162,951,000	12.90
Brilliance China Automotive Holdings Limited ("BCA")	2	162,951,000	12.90

*Notes:*

1. DWD is a wholly-owned subsidiary of Daiweldo Foundation Limited. By virtue of its interest in DWD, Daiweldo Foundation Limited is deemed to be interested in those shares in the Company which DWD is interested.
2. Pure Shine is a wholly-owned subsidiary of BCA. By virtue of BCA's interest in Pure Shine, BCA is deemed to be interested in those shares in the Company which Pure Shine is interested.

Save as disclosed above, no other party was recorded in the register required to be kept by the SDI Ordinance as having an interest of 10% or more of the shares of the Company as at 31st December, 2002.

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## DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December, 2002, the interests of the directors, chief executives and their associates in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which require notification to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Section 28 of the SDI Ordinance (including interests which are taken or deemed to have under Section 31 or Part 1 of the Schedule of the SDI Ordinance) or which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered into the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, are as follows:

Name	Note	Nature of interests	Number of shares held
Yung Yeung	1	Corporate	630,304,400

*Note:*

1. Daiweldo Foundation Limited is owned as to 80% by Mr. Yung Yeung who is a director of the Company. Five per cent by each of Mr. Siu On Ng, Mr. Keung So, Mr. Xing Hong and Mr. To Ho, all of whom are Directors of the Company before 22nd November, 2002. The aforementioned 630,304,000 shares are registered in the name of DWD, which is a wholly-owned subsidiary of Daiweldo Foundation Limited. Up to the date of this report, DWD is interested in 630,304,000 shares of the Company, representing 49.88% of the issued share capital of the Company. Therefore Mr. Yung Yeung, by virtue of his interest in Daiweldo Foundation Limited, is deemed to be interested in those shares in the Company which DWD is interested.

## DIRECTORS' RIGHTS TO SUBSCRIBE FOR SHARES

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year ended 31st December, 2002 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 or debentures of the Company or any other body corporate.

## SHARE OPTION SCHEME

On 15th March, 1995, a share option scheme was adopted by the shareholders of the Company (the “**Scheme**”), under which the Directors, may, at their discretion, grant options (the “**Share Options**”) to the employees of the Group to subscribe for shares of HK\$0.10 each in the share capital of the Company (the “**Shares**”), subject to the terms and conditions stipulated therein.

The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include executive directors and employees of the Company and its wholly-owned subsidiaries. Unless otherwise terminated or amended, the Scheme will remain in force for 10 years from the date of adoption. Pursuant to the Scheme, the directors shall be entitled at any time within 10 years or such period as the directors may from time to time determine subject to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) applicable for the time being, to offer the grant of Share Option to any participant as the Directors may in their absolute discretion select. The maximum number of Shares in respect of which Share Options may be granted under the Scheme (including Share Options exercised and Share Options then outstanding) shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of Shares in respect of which Share Options may be granted to any grantee shall not exceed 25% of the maximum aggregate number of Shares in the capital of the Company in respect of which Share Options may be granted at that time under the Scheme, which includes the total number of Shares already issued or issuable to him under all the Share Options previously granted to him and the said Share Option, or such other percentage as the directors of the Company may from time to time determine subject to the Listing Rules applicable for the time being. The offer of the grant of Share Options shall be accepted within 28 days from the date of offer upon payment of a nominal consideration of HK\$1.00 by the grantee. As the directors of the Company did not make any specification to the minimum period for which Share Options had to be held before it could be exercised, Share Options might be exercised by the grantee at any time after Share Options were granted and accepted. The subscription price of the Shares in respect of Share Options were granted shall be 80% of the average of the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet for the 5 business days immediately preceding the date of the offer on which there were dealings in Shares on the Stock Exchange or such amount as the directors of the Company may from time to time determine subject to the Listing Rules applicable for the time being or the nominal amount of the Share (whichever is the highest). The remaining life of the Scheme is about 2 years.

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## SHARE OPTION SCHEME (Continued)

The directors of the Company had granted Share Options to subscribe for 40,000,000 and 86,300,000 Shares to certain directors and employees of the Company on 16th February and 2nd November, 2000, respectively. The following Share Options were outstanding under the Scheme during the year:

### Number of Share Options granted

Name or Category of Participant	At 1st January, 2002	Granted during the year	Lapsed during the year	At 31st December, 2002	Date of Grant	Exercise Price	Exercise Period	Closing price of the Company's shares
<b>Directors</b>								
Yung Yeung	10,000,000	–	–	10,000,000	Note 1	Note 1	Note 1	Note 3
	21,570,000	–	–	21,570,000	Note 2	Note 2	Note 2	Note 4
Jun Li	5,400,000	–	–	5,400,000	Note 2	Note 2	Note 2	Note 4
Chunhua Huang	5,400,000	–	–	5,400,000	Note 2	Note 2	Note 2	Note 4
Siu On Ng*	8,000,000	–	8,000,000	–	Note 1	Note 1	Note 1	Note 3
	11,130,000	–	11,130,000	–	Note 2	Note 2	Note 2	Note 4
Keung So*	4,000,000	–	4,000,000	–	Note 1	Note 1	Note 1	Note 3
	5,400,000	–	5,400,000	–	Note 2	Note 2	Note 2	Note 4
Xing Hong*	4,000,000	–	4,000,000	–	Note 1	Note 1	Note 1	Note 3
	5,400,000	–	5,400,000	–	Note 2	Note 2	Note 2	Note 4
To Ho*	4,000,000	–	4,000,000	–	Note 1	Note 1	Note 1	Note 3
	5,400,000	–	5,400,000	–	Note 2	Note 2	Note 2	Note 4
Maozeng Yang*	4,000,000	–	4,000,000	–	Note 1	Note 1	Note 1	Note 3
	5,400,000	–	5,400,000	–	Note 2	Note 2	Note 2	Note 4
Tung Sun*	5,400,000	–	5,400,000	–	Note 2	Note 2	Note 2	Note 4
<b>Employees</b>								
<i>(in aggregate)</i>	6,000,000	–	1,200,000	4,800,000	Note 1	Note 1	Note 1	Note 3
	15,800,000	–	6,400,000	9,400,000	Note 2	Note 2	Note 2	Note 4

\* The directors were removed as directors of the Company on 22nd November, 2002 and ceased to be eligible persons for the Share Options upon their removal pursuant to the terms of the Scheme. All their interests in the Share Options lapsed on 22nd November, 2002



## SHARE OPTION SCHEME (Continued)

### Number of Share Options granted (Continued)

Notes:

1. The Share Options granted on 16th February, 2000 are exercisable at the subscription price of HK\$0.69 per Share at any time during the period of 10 years from 16th February, 2000 to 15th February, 2010.
2. The Share Options granted on 2nd November, 2000 are exercisable at the subscription price of HK\$0.382 per Share at any time during the period of 10 years from 2nd November, 2000 to 1st November, 2010.
3. The closing price of the Shares immediately before the date on which an aggregate of 40,000,000 Share Options were granted (i.e. 15th February, 2000) was HK\$1.85.
4. The closing price of the Shares immediately before the date on which an aggregate of 86,300,000 Share Options were granted (i.e. 1st November, 2000) was HK\$0.455.

Up to the date of this report, none of the share options granted under the Scheme have been exercised. Accordingly, the weighted average closing price of the Shares immediately before the dates on which the Share Options were exercised are not disclosed herein.

Pursuant to the amendments (“**New Rules**”) to Chapter 17 of the Listing Rules, any options granted after 1st September, 2001 must comply with the provisions of the New Rules. If the Company wishes to grant options to its directors or other eligible participants in the future, a new share option scheme in compliance with the New Rules is to be approved and adopted by the shareholders of the Company in a general meeting. A new share option scheme in compliance with the New Rules is proposed to be adopted at the forthcoming annual general meeting. Details of the proposed new share option scheme are set out in the circular to the shareholders to be dispatched to shareholders in May 2003.

The directors of the Company do not intend to grant further share options under the Scheme until it has been duly amended in compliance with all the requirements of Chapter 17 of the Listing Rules. However, all the outstanding share options granted under the Scheme prior to 1st September, 2001 will remain in full force and effect until the expiry of the exercise period.

## DIRECTORS’ INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group’s business to which the Company or any of its subsidiaries or associated companies was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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## DIRECTORS' SERVICE CONTRACTS

The Company entered into service contracts with Mr. Jun Li and Mr. Chunhua Huang, directors, respectively, for their offices of Chief Executive Officer and Chief Financial Officer, for a period of one year from 1st August, 2000 (the “**Service Contracts**”). The Service Contracts shall continue thereafter until terminated by either party by giving the other party one month's written notice.

On 8th January, 2002, the terms of the Service Contracts were amended to extend their term of employment to 31st December, 2004 and will be thereafter automatically extended unless further notice by either party to terminate the Service Contracts. Unless certain conditions materialized, neither Mr. Jun Li and Mr. Chunhua Huang could resign nor the Company could dismiss them before 31st December, 2004. Should the Company dismiss Mr. Jun Li and Mr. Chunhua Huang otherwise than in accordance with the terms of the Service Contracts, the Company would pay them an amount equivalent to their salaries of the unserved period.

Save as disclosed above, none of the directors of the Company for re-election at the forthcoming annual general meeting has proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring, or determinable by the employer within one year without payment of compensation, other than statutory compensations).

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

## ANALYSIS OF BORROWINGS AND INTEREST CAPITALISED

The particulars of the Group's bank borrowings as at the end of the year are set out in note 26 to the financial statements respectively.

No interest was capitalised by the Group during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which oblige the Company to offer new shares on a pro-rata basis to existing shareholders. Such obligations are provided for in the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the Group's turnover attributable to the five largest customers for the year are as follows:

### Turnover

The largest customer	22%
The five largest suppliers in aggregate	39%

The percentage of the Group's purchases attributable to the major suppliers for the year are as follows:

### Purchases

The largest supplier	89%
The five largest suppliers in aggregate	95%

As far as the directors are aware, no directors of the Company or any of its subsidiaries, their associates or any shareholders of the Company (who to the directors' knowledge is interested in or owns more than 5 per cent. of the Company's share capital) has any shareholding in the suppliers or customers referred to above.

## CONNECTED TRANSACTIONS

In the course of preparing the audited financial statements of the Group for the year ended 31st December, 2002, the Directors noted that during the year, Shenyang Liao Hua Automobile Axles Company Limited (the "Shenyang JV") acquired certain components required for the manufacturing of automobile axles from 中車集團瀋陽七四零七工廠 ("7407 Holdings"). The finished products of Shenyang JV were then principally sold to 7407 Holdings. Shenyang JV was and is indirectly owned as to (a) 51% by the Company and (b) 49% by Shenyang Song Liao Jin Hua Automobile Axles Manufactory (瀋陽松遼金華車橋有限公司) ("PRC JV Partner") 7407 Holdings, is the holding company of PRC JV Partner. By virtue of their respective interests in Shenyang JV, PRC JV Partner and 7407 Holdings are connected parties to the Company within the meaning of the Listing Rules. Accordingly, the transactions constitute connected transactions for the Company and should have been and are subject to the disclosure and shareholders' approval requirements of the Listing Rules. Such non-compliance constitutes breaches of the Listing Rules and the Stock Exchange may reserve the right to take appropriate action against the Company and/or the Directors in respect of such breaches.

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## CONNECTED TRANSACTIONS *(Continued)*

The aggregate amount of purchase of components by Shenyang JV from 7407 Holdings, on normal commercial terms, amounted to about RMB6,426,000 (equivalent to about HK\$6,006,000 during the two months' period ended 31st December, 2002). The aggregate amount of sale of finished/assembled products by Shenyang JV to 7407 Holdings, on normal commercial terms, amounted to about RMB3,550,000 (equivalent to about HK\$3,318,000) during the two months' period ended 31st December, 2002.

Since Shenyang JV will continue to acquire components from 7407 Holdings and sell its finished/assembled products to 7407 Holdings, the Company will seek a waiver from the Stock Exchange from strict compliance with the requirements of the Listing Rules in respect of the future ongoing transactions.

The Company will make an announcement on these events shortly. A circular to the shareholders setting out the details of the ongoing transactions together with a notice of special general meeting will be forwarded to the shareholders in due course.

## CORPORATE GOVERNANCE

The Company complies with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "**Code**"), except that the independent non-executive directors were not appointed for specific terms but appointed to their offices for such terms and subject to retirement in accordance with clause 87 of the bye-laws of the Company.

In compliance with the Code, the Company has established an Audit Committee and has adopted the terms of reference governing the authority and duties of the Audit Committee.

## AUDITORS

At a special general meeting of the Company convened on 20th January, 2003, Grant Thornton was appointed as the auditors of the Company in place of PricewaterhouseCoopers who resigned on 20th November, 2002. A resolution will be submitted to the Annual General Meeting to re-appoint Grant Thornton as auditors of the Company.

On behalf of the Board

**Jun Li**

*Director*

29th April, 2003