

# Directors' Report

The directors of the Company (the "Directors") present their report together with the audited financial statements for the year ended 31st December, 2002.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are securities, options and futures broking and trading, fund management, underwriting, share margin financing, investment holdings and property development.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 16 to the financial statements.

## ASSOCIATES

Particulars of the Company's associates are set out in note 17 to the financial statements.

## RESULTS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 20.

## RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in note 31 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31st December, 2002, the Company did not have any reserves available for cash distribution. However, the Company's share premium account may be distributed in the form of fully-paid bonus shares.

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2002 (2001: Nil).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 15 to the financial statements.



## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 30 to the financial statements.

## SHARE OPTIONS

The Company operates a share option scheme under which options will be granted to directors, employees or consultants of any members of the Group. Upon the adoption of this share option scheme on 27th June, 2002, the operation of the share option scheme adopted on 4th February, 1998 (the "1998 Share Option Scheme") was terminated such that no further options can thereafter be granted under the 1998 Share Option Scheme but in all other respects, the provisions of the 1998 Share Option Scheme remain in full force and effect.

In addition, on 6th August, 2002, the Company granted options to two substantial shareholders to subscribe for an aggregate of 200,000,000 new shares.

Details of these share options and movements during the year are set out in note 34 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities other than as an agent for clients of its subsidiaries.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2002, less than 30% of the Group's sales and purchases were attributable to the Group's five largest customers and suppliers.

## GROUP FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 64.



# Directors' Report

## DIRECTORS

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

### Executive directors

Mr. Lu Ruifeng	(appointed on 29th May, 2002)
Mr. Leung Shi Wing	(appointed on 6th August, 2002)
Dr. Gu Qinhua Joseph	(appointed on 29th May, 2002)
Ms. So Wai Yin, Irene	
Mr. Norman Carrera Lowe	(appointed on 6th August, 2002)
Mr. Poon Tai Yip, Philip	(resigned on 27th June, 2002)
Mr. Evans Carrera Lowe	(resigned on 6th August, 2002)
Mr. Eric Carrera Lowe	(resigned on 6th August, 2002)
Mr. Chan Hing Fung, Nelson	(resigned on 6th August, 2002)
Mr. Lung King Chuen, David	(resigned on 6th August, 2002)

### Non-executive directors

Mr. Mart Bakal	(resigned on 16th May, 2003)
Ms. Chau Mei Chun	(appointed on 6th August, 2002)

### Independent non-executive directors

Mr. Lai Hin Wing, Henry	
Mr. Lee G. Lam	(appointed on 15th August, 2002)
Mr. Alan George Thompson	(resigned on 15th August, 2002)

In accordance with Article 103 of the Company's Articles of Association, Ms. So Wai Yin, Irene will retire by rotation at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

In accordance with Article 94 of the Company's Articles of Association, Mr. Leung Shi Wing, Mr. Norman Carrera Lowe, Ms. Chau Mei Chun and Mr. Lee G. Lam will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.



## DIRECTORS' INTERESTS IN SECURITIES

### (i) Interest in shares

As at 31st December, 2002, the interests of the Directors in the Company's issued share capital as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") were as follows:

Name of directors	Number of ordinary shares held		
	Personal interests	Corporate interests	Total
Mr. Leung Shi Wing ( <i>Note</i> )	—	619,500,000	619,500,000
Ms. So Wai Yin, Irene	8,809,567	—	8,809,567
Mr. Norman Carrera Lowe	50,300	—	50,300

*Note:* Mr. Leung Shi Wing is deemed to be interested in 619,500,000 shares held by China United Telecom Limited due to his 50% shareholding interest in China United Telecom Limited.

Save as disclosed above, as at 31st December, 2002, none of the Directors, chief executives or their associates had any personal, family, corporate or other beneficial interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.



# Directors' Report

## DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

### (ii) Rights to acquire shares

Details of the share option schemes of the Company are set out in note 34 to the financial statements.

The following table discloses movements in the Company's share options held by the Directors during the year.

Directors	Number of share options outstanding as at 1st January, 2002	Lapsed during the year	Number of share options outstanding as at 31st December, 2002	Exercise price HK\$	Exercisable period
Mr. Norman Carrera Lowe	100,000	(100,000)	—	1.22	18.6.1998 – 17.6.2002
	50,000	—	50,000	0.49	11.7.2001 – 10.7.2004
	300,000	—	300,000	0.38	1.9.2001 – 31.8.2006
Ms. So Wai Yin, Irene	1,000,000	—	1,000,000	0.49	13.7.1999 – 12.7.2004
	1,000,000	—	1,000,000	0.49	13.7.2001 – 12.7.2004
Mr. Eric Carrera Lowe (Note)	100,000	(100,000)	—	1.22	18.6.1998 – 17.6.2002
	200,000	(200,000)	—	0.49	13.7.2001 – 12.7.2004
Mr. Poon Tai Yip, Philip (Note)	300,000	(300,000)	—	0.49	13.7.1999 – 12.7.2004
	300,000	(300,000)	—	0.49	13.7.2001 – 12.7.2004
Mr. Chan Hing Fung, Nelson (Note)	1,000,000	(1,000,000)	—	0.38	1.9.2001 – 31.8.2006
Mr. Evans Carrera Lowe (Note)	1,700,000	(1,700,000)	—	0.49	13.7.1999 – 12.7.2004
	1,700,000	(1,700,000)	—	0.49	13.7.2001 – 12.7.2004

Note: Mr. Eric Carrera Lowe, Mr. Poon Tai Yip, Philip, Mr. Chan Hing Fung, Nelson and Mr. Evans Carrera Lowe resigned as Directors during the year.

Save as disclosed above, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives or the spouse or children under 18 years of age of any such Directors or chief executive, to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, or had exercised any such rights.

## **DIRECTORS' SERVICE CONTRACTS**

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory obligation.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Except for the subscription agreement entered on 20th April, 2002 and the two option agreements entered on 6th August, 2002, details of which are set out in the Company's circular dated 28th May, 2002, no contracts of significance, to which the Company, its ultimate holding company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the parties set out below had an interest of 10% or more in the issued share capital of the Company.

China United Telecom Limited has an interest in 619,500,000 shares of the Company. Mr. Leung Shi Wing is deemed to be interested in the shares held by China United Telecom Limited due to his 50% shareholding interest in China United Telecom Limited. Ms. Chau Mei Chun, being the spouse of Mr. Leung Shi Wing, is taken to be interested in the shares in which Mr. Leung Shi Wing is interested.

Mr. Evans Carrera Lowe has an interest in 291,233,414 shares, of which 197,500,000 shares are held through High Reach Assets Limited, 50,227,941 shares are held through Global Source Company Limited, 11,434,800 shares are held through Supreme Grass Limited and 7,527,640 shares are held through Lowe Holdings Company Limited, Inc..

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2002.



## Directors' Report

### DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st December, 2002, the amounts due from Dynamic Assets Limited ("DAL"), Pharmatech Management Limited ("PML") and Noblesse Ventures Inc. ("NVI") before and after provision are summarised below.

	<b>DAL</b> <b>before (after)</b> <b>provision</b> <b>(HK\$)</b>	<b>PML</b> <b>before (after)</b> <b>provision</b> <b>(HK\$)</b>	<b>NVI</b> <b>before (after)</b> <b>provision</b> <b>(HK\$)</b>
Margin loans (Note 1)	5,695,814 (Nil)	3,099,631 (Nil)	8,735,667 (208,820)
Other loans (Note 2)	45,491,023 (Nil)	28,278,265 (Nil)	7,074,379 (Nil)
Total loans	<u>51,186,837</u> (Nil)	<u>31,377,896</u> (Nil)	<u>15,810,046</u> (208,820)

Notes:

- The amounts due result from share margin loans. A total provision of HK\$17,322,292 (2001: HK\$10,800,000) has been made. Please refer to note 35(b) to the financial statements for further details in relation to these loans.
- These loans were approved by shareholders of the Company in an extraordinary general meeting held on 23rd July, 1999. A total provision of HK\$80,843,667 (2001: HK\$80,908,775) has been made. Please refer to note 35(a) to the financial statements for further details in relation to these loans.
- Due to a consolidated deficiency in tangible assets of HK\$37.5 million as recorded at the balance sheet date, it is not practicable to express the amount of the above advances to each entity as a percentage of the consolidated net tangible assets value of the Group.

### POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 37 to the financial statements.



## AUDIT COMMITTEE

The Audit Committee has met to review the system of internal control and its compliance, and the results of the Group for the year ended 31st December, 2002.

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange throughout the year covered by the annual report.

## AUDITORS

On 11th April, 2003, Messrs. Li, Tang, Chen & Co., resigned and 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

**Lu Ruifeng**

*Chairman*

13th June, 2003

