

# Directors' Report

The directors present their annual report and the audited financial statements of the Company for the year ended March 31, 2001.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the subsidiaries and associates are set out in notes 35 and 36 to the financial statements, respectively.

## RESULTS

Details of the Group's results for the year ended March 31, 2001 are set out in the consolidated income statement on page 21 of the annual report.

## FINANCIAL SUMMARY

A summary of the Group's results and financial position is set out on page 62 of the annual report.

## SHARE CAPITAL

Details of movements in the issued share capital of the Company are set out in note 21 to the financial statements.

## SHARE OPTIONS

Details of the Company's share option scheme and movements during the year are set out in note 22 to the financial statements.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the financial statements.



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## TANGIBLE FIXED ASSETS

The Group's investment properties were revalued at March 31, 2001 on an open market value basis. A portion of the deficit arising on revaluation amounted to HK\$56,254,000 has been charged to the investment property revaluation reserve and the remaining balance of the deficit amounted to HK\$51,586,000 has been charged to the income statement.

Details of these and other movements in the tangible fixed assets during the year are set out in note 12 to the financial statements.

Particulars of the major properties of the Group at March 31, 2001 are set out on page 61 of the annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the largest and the five largest customers accounted for 80% and 82% respectively, of the Group's total turnover. The five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

As far as the Directors are aware, neither the Directors, their respective associates, nor any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers or five largest suppliers.

## POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 38 to the financial statements.



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## DIRECTORS

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

### Executive directors:

Mr. Chan Fook Lai – <i>Honorary Chairman</i>	(resigned as Chairman and re-designated as Honorary Chairman on April 7, 2000)
Mr. Chu Yu Lin, David	(resigned as Managing Director and appointed as Chairman on April 7, 2000, resigned as Chairman and remained as executive director on October 17, 2000)
Mr. Chan King Hung	
Mrs. Chu Ho Miu Hing – <i>Vice-Chairman</i>	(appointed as Vice-Chairman on June 11, 2001)
Mr. Lu Xin – <i>Vice-Chairman and Managing Director</i>	(appointed on May 22, 2001, re-designated as Vice-Chairman and Managing Director on June 11, 2001)
Mr. Siu King Nin, Peter	(re-designated as Managing Director on April 7, 2000 and resigned on October 17, 2000)
Mr. He Chenguang	(appointed as vice-chairman on April 7, 2000, re-designated as Chairman on October 17, 2000 and resigned on November 23, 2000)

### Non-executive directors:

Mr. Leung Wing Kin	(resigned on July 11, 2001)
Mr. Chow Nin Mow, Albert	(resigned on March 15, 2001)

### Independent non-executive directors:

Mr. Tang Tin Sek	(appointed on April 7, 2000)
Mr. Ko Ming Tung, Edward	(appointed on April 7, 2000)
Mr. Chung Chi Chiu	(appointed on March 15, 2001)
Mr. Yuen Tak Tim, Anthony	(appointed on April 7, 2000 and resigned on November 2, 2000)
Mr. Chuang Shih Ping	(resigned on October 31, 2000)
Mr. Morris David Austin	(resigned on October 31, 2000)

In accordance with Clause 86(2) of the Company's Bye-laws, Messrs. Lu Xin and Chung Chi Chiu retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.



## Directors' Report

### DIRECTORS (continued)

In accordance with Clause 87 of the Company's Bye-laws, Messrs. Chu Yu Lin, David and Chu Ho Miu Hing retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of Mr. Chan Fook Lai, Mr. Chan King Hung and Mr. Chu Yu Lin, David has entered into a service contract with the Company on December 28, 2000 which will continue unless and until terminated by either party. Mr. Lu Xin has entered into a service contract with the Company on May 22, 2001 which will continue unless and until terminated by either party.

The non-executive directors have been appointed for a term subject to retirement by rotation in accordance with the Company's Bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a 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.

### DIRECTORS' INTERESTS IN SHARES

At March 31, 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of directors	Number of shares held			Notes
	Personal interests	Family interests	Corporate interests	
Mr. Chu Yu Lin, David	776,297	–	358,025,668	1
Mrs. Chu Ho Miu Hing	–	358,801,965	–	2

*Notes:*

- 358,025,668 shares are held by Quizzical Holdings Limited, a company which is 50% owned by Weinberg Group Limited, and 50% owned by Hunter Valley Group Limited. Hunter Valley Group Limited is 100% owned by Manta Corporation, a company holding such shares as trustee on trust for The Manta Trust, a discretionary trust, the eligible beneficiaries of which include Mr. Chu Yu Lin, David and his present children.
- The family interests of 358,801,965 shares represent the interests of Mr. Chu Yu Lin, David, the husband of Mrs. Chu Ho Miu Hing.

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## DIRECTORS' INTERESTS IN SHARES *(continued)*

The personal beneficial interests of the directors in the non-voting deferred shares of the Company's subsidiaries as at March 31, 2001 were as follows:

<b>Name of subsidiary</b>	<b>Name of director</b>	<b>Number of non-voting deferred shares</b>
Calorie Limited	Mr. Chu Yu Lin, David	20

The non-voting deferred shares carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of Calorie Limited or to participate in any distributions on winding up.

Save as disclosed above and other than the nominee shares in subsidiaries held by a director in trust for the subsidiaries, at March 31, 2001, none of the directors and their associates had any interests in any securities of the Company or any of its subsidiaries or associated corporations as defined in the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has a share option scheme under which the directors of the Company may, at their discretion, grant options to eligible employees to subscribe for shares in the Company, including executive directors, of the Company or any of its subsidiaries. Details of the share option scheme are set out in note 22 to the financial statements.



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

During the year, the Company has granted options to the following directors pursuant to the Company's share option scheme to subscribe for shares in the Company which were all outstanding at March 31, 2001:

Name of director	Date share options granted	Exercisable period	Number of share options granted	Exercise Price HK\$
Mr. Chan Fook Lai	February 1, 2000	August 28, 2000 to August 27, 2003	1,100,000	0.228
	March 2, 2001	September 15, 2001 to September 14, 2004	11,000,000	0.10
Mr. Chan King Hung	October 20, 1999	April 28, 2000 to April 27, 2003	20,000,000	0.17
	February 1, 2000	August 28, 2000 to August 27, 2003	3,000,000	0.228
	March 2, 2001	September 15, 2001 to September 14, 2004	11,000,000	0.10
Mr. Chu Yu Lin, David	October 20, 1999	April 28, 2000 to April 27, 2003	20,000,000	0.17
	February 1, 2000	August 28, 2000 to August 27, 2003	3,000,000	0.228
	March 2, 2001	September 15, 2001 to September 14, 2004	11,000,000	0.10
Mrs. Chu Ho Miu Hing	October 20, 1999	April 28, 2000 to April 27, 2003	20,000,000	0.17
	February 1, 2000	August 28, 2000 to August 27, 2003	3,000,000	0.228
	March 2, 2001	September 15, 2001 to September 14, 2004	14,000,000	0.10

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. In addition, none of the directors or their spouses or children under the age of 18 had any right to subscribe for the shares of the Company or had exercised any such right during the year.

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## DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in note 34 to the financial statements, no contracts of significance subsisted at any time during the year 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.

## CONNECTED TRANSACTIONS

On April 14, 2000, a subsidiary of the Company entered into an agreement to acquire a 40% equity interest in Holdenby Enterprises Limited, a company wholly owned by a former chairman, Mr. He Chenguang, for total consideration of HK\$32,000,000. As at the balance sheet date, HK\$16,004,000 was paid as deposit for the investment.

On June 29, 2000, a subsidiary of the Company entered into an agreement to acquire a 60% equity interest in Drury Profits Limited, a company wholly owned by a former chairman, Mr. He Chenguang, for total consideration of HK\$65,000,000. As at the balance sheet date, HK\$9,831,000 was remained as deposit for the investment.

Subsequently, both of the above transactions were lapsed due to the fact that the conditions precedent could not be fulfilled. Pursuant to the above agreements, the deposit paid should be refunded by Mr. He Chenguang. On March 6, 2001, the Group issued a writ of summons against Mr. He Chenguang for the recovery of the deposits paid for the above investments amounting to HK\$25,835,000.

On October 18, 2000, a subsidiary of the Company entered into heads of agreement to acquire a 40% equity interest in Regain Profits Limited, a company wholly owned by a former chairman, Mr. He Chenguang. Subsequently, a cancellation agreement has been signed on October 30, 2000.



## Directors' Report

### SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that as at March 31, 2001 the Company had been notified of the following persons with interests representing 10% or more of the issued share capital of the Company:

<b>Name</b>	<b>Notes</b>	<b>Number of shares held</b>
Quizzical Holdings Limited	1	358,025,668
Hunter Valley Group Limited	1	358,025,668
Manta Corporation	1	358,025,668
Weinberg Group Limited	2	358,025,668
Tiston Group Limited	2	358,025,668
Cadbeck Investments Limited	3	377,492,836
Mr. Chan Kin Hung	4	378,223,703
Ms. Chu Koh-ann	5	358,025,668
Mr. Wen Carson	6	358,125,668

*Notes:*

- (1) The interests disclosed herein are also included as the corporate interests of Mr. Chu Yu Lin, David as referred to in note (1) under the section headed "DIRECTORS' INTERESTS IN SHARES" above.
- (2) The interests disclosed herein are held by Quizzical Holdings Limited. 50% of the issued share capital of Quizzical Holdings Limited is owned by Weinberg Group Limited, which is 55% owned by Cadbeck Investments Limited and 45% owned by Tiston Group Limited.
- (3) The interests disclosed herein include 19,467,168 shares held by Cadbeck Investments Limited, a company wholly owned by Mr. Chan Kin Hung, and 358,025,668 shares held by Quizzical Holdings Limited.
- (4) The interests disclosed herein included 500,000 shares directly held by Mr. Chan Kin Hung, 19,467,168 shares held by Cadbeck Investments Limited, a company wholly owned by Mr. Chan Kin Hung, 230,867 shares held by Songcans Limited, a company wholly owned by Mr. Chan Kin Hung indirectly and 358,025,668 shares held by Quizzical Holdings Limited.
- (5) Ms. Chu Koh-ann holds one share in Manta Corporation, representing 50% of its entire issued share capital and the interests disclosed herein include 358,025,668 shares which are the same as the corporate interests of Mr. Chu Yu Lin, David as referred to in note (1) under the section headed "DIRECTORS' INTERESTS IN SHARES" above.
- (6) Mr. Wen Carson holds one share in Manta Corporation, representing 50% of its entire issued share capital and the interests disclosed herein include 358,025,668 shares which are the same as the corporate interests of Mr. Chu Yu Lin, David as referred to in note (1) under the section headed "DIRECTORS' INTERESTS IN SHARES" above. In addition, the interests disclosed herein also included 100,000 shares held by Madam Fung Yuet Shan, the spouse of Mr. Wen Carson.

Save as disclosed herein, no other person is recorded in the register kept under section 16 of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.



# Directors' Report

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## **CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS**

Other than the share option scheme and the debentures described in notes 22 and 24 to the financial statements, respectively, the Company had no outstanding convertible securities, options, warrants or similar rights as at March 31, 2001 and there had been no exercise of any convertible securities, options, warrants or similar rights 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 would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended March 31, 2001 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except for the following events.

Pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, an audit committee of the Company was established on March 31, 1999 with reference to "A Guide for the Formation of an audit committee" issued by the Hong Kong Society of Accountants in December 1997. On March 31, 2000, Mr. Cheng Cheung Fuk resigned as the only member of the Audit Committee. As a result, the Company had no members in the Audit Committee until the appointment of Messrs. Tang Tin Sek and Ko Ming Tung, Edward as independent non-executive directors and members of the Audit Committee on April 7, 2000.

On August 4, 2000, the Company had given a guarantee as security for banking facilities granted to Baccarat International Limited ("Baccarat"), a wholly owned subsidiary of the Company held 50% interest, to the extent of HK\$105,000,000. The giving of the guarantee by the Company in the amount of HK\$105,000,000, representing 106% of the consolidated net asset value of the Company and its subsidiaries as at March 31, 2000, gave rise to a general disclosure obligation on its part under Paragraph 3.3 of Practice Note 19 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited which requires disclosure to be made if such guarantee given exceed 25% of the net assets of the Company and its subsidiaries. As a result, the Company had breached the disclosure requirement under Practice Note 19. Such guarantee was released upon the disposal of interest in Baccarat by the subsidiary of the Company during the year.



## Directors' Report

### AUDITORS

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

On behalf of the Board

**Lu Xin**

*Vice Chairman and Managing Director*

Hong Kong, July 26, 2001

