

## REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area for the year ended 31 December 2001 is set out in note 4 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 38 to 88.

The directors recommend the payment of a final dividend of HK5 cents per ordinary share in respect of the year, to shareholders on the register of members on 23 April 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

## REPORT OF THE DIRECTORS (cont'd)

## SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets and liabilities of the Group for each of the five years ended 31 December 2001 prepared on the basis set out in the note below:

## Results

	Year ended 31 December				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>341,041</b>	188,734	106,547	86,628	74,205
PROFIT BEFORE TAX	<b>99,040</b>	62,023	31,842	23,657	18,968
Tax	<b>(15,874)</b>	(7,488)	(4,158)	—	—
PROFIT BEFORE MINORITY INTERESTS	<b>83,166</b>	54,535	27,684	23,657	18,968
Minority interests	<b>18</b>	—	—	—	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>83,184</b>	54,535	27,684	23,657	18,968

## REPORT OF THE DIRECTORS (cont'd)

## SUMMARY FINANCIAL INFORMATION (cont'd)

## Assets and liabilities

	As at 31 December				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
FIXED ASSETS	<b>67,096</b>	57,083	42,786	46,256	47,638
INVESTMENT PROPERTIES	<b>16,000</b>	16,000	15,846	15,846	15,846
INTANGIBLE ASSETS	<b>85,040</b>	—	—	—	—
DEPOSITS, PAYMENTS IN ADVANCE AND CLUB DEBENTURE	<b>10,878</b>	350	350	350	350
PLEDGED BANK DEPOSITS	<b>4,014</b>	—	—	—	—
CURRENT ASSETS	<b>219,074</b>	116,354	40,723	25,878	22,363
<b>TOTAL ASSETS</b>	<b>402,102</b>	189,787	99,705	88,330	86,197
CURRENT LIABILITIES	<b>68,927</b>	52,679	36,607	45,935	66,556
NON-CURRENT LIABILITIES	<b>36,536</b>	4,298	5,345	6,326	7,229
<b>TOTAL LIABILITIES</b>	<b>105,463</b>	56,977	41,952	52,261	73,785
MINORITY INTERESTS	<b>2,136</b>	—	—	—	—
<b>NET ASSETS</b>	<b>294,503</b>	132,810	57,753	36,069	12,412

Note: The summary of the combined results and of the assets and liabilities of the Group for each of the three years ended 31 December 1999 has been extracted from the Company's prospectus dated 5 December 2000. The results of the Group for each of the two years ended 31 December 2001 and of the assets and liabilities of the Group as at 31 December 2000 and 2001 are those set out in the financial statements on pages 38 and 40, respectively. The summary of the consolidated/combined results for each of the four years ended 31 December 2000, and of the assets and liabilities as at 31 December 1997, 1998 and 1999 of the Group includes the results, assets and liabilities of the Company and its subsidiaries as if the current Group structure had been in existence throughout the four years ended 31 December 2000.

## REPORT OF THE DIRECTORS *(cont'd)*

### **FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

### **CONVERTIBLE BOND**

Details of the convertible bond of the Company and of the Group are set out in note 27 to the financial statements.

### **SHARE CAPITAL, SHARE OPTIONS AND WARRANTS**

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

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

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

## REPORT OF THE DIRECTORS *(cont'd)*

### DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands amounted to HK\$195,099,000. This includes the Company's share premium and capital reserve accounts in the amount of HK\$83,619,000 and HK\$89,247,000, respectively, at 31 December 2001, which may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (1) The aggregate amount of turnover attributable to the Group's five largest customers represented 26% of the Group's total turnover. The amount of sales to the Group's largest customer represented 13% of the Group's total turnover; and
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 63% of the Group's total purchases. The amount of purchases from the Group's largest supplier represented 24% of the Group's total purchases.

As far as the directors are aware, neither the directors of the Company, their associates, nor the 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 the Group's five largest customers or five largest suppliers.

## REPORT OF THE DIRECTORS *(cont'd)*

### DIRECTORS

The directors of the Company during the year were as follows:

#### **Executive directors:**

Mr. Lau Jin Wei, Jim

Mr. Choi Woon Man

Mr. Li Kwong Mo, Peter

Ms. Wong Wai Kwan, Connie

Mr. Hui Man, Herman

#### **Non-executive director:**

Professor Ouyang Fan

#### **Independent non-executive directors:**

Mr. Ou Ying Ji

Mr. Yip Wai Leung, Jerry

Subsequent to the balance sheet date, on 31 January 2002, Mr. Hui Man, Herman resigned as a director of the Company.

In accordance with the Company's articles of association, Mr. Lau Jin Wei, Jim and Mr. Choi Woon Man will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the non-executive director, are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's articles of association. The independent non-executive directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the Company's articles of association.

REPORT OF THE DIRECTORS *(cont'd)***DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors has entered into a service contract with the Company for a term of two years commencing from 1 January 2001, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

**DIRECTORS' INTERESTS IN CONTRACTS**

No director had a significant beneficial 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.

**DIRECTORS' INTERESTS IN SHARES AND WARRANTS**

At 31 December 2001, the interests of the directors in the share capital and warrants of the Company or 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, were as follows:

**Ordinary shares of the Company**

Name of director	Notes	Number of ordinary shares of HK\$0.10 each held and nature of interest		
		Personal	Family	Corporate
Mr. Lau Jin Wei, Jim	(1)	750,000	66,000,000	—
Mr. Choi Woon Man	(2)	—	—	60,000,000
		<u>          </u>	<u>          </u>	<u>          </u>

## REPORT OF THE DIRECTORS (cont'd)

## DIRECTORS' INTERESTS IN SHARES AND WARRANTS (cont'd)

## Warrants of the Company

Name of director	Notes	Number of warrants held and nature of interest		
		Personal	Family	Corporate
Mr. Lau Jin Wei, Jim	(1)	150,000	13,200,000	—
Mr. Choi Woon Man	(2)	—	—	6,600,000
Mr. Hui Man, Herman		10,000	—	—
		<u>          </u>	<u>          </u>	<u>          </u>

The interests of the directors in the share options of the Company are separately disclosed in the section “Share option scheme” below.

## Notes:

- (1) The 66,000,000 ordinary shares and 13,200,000 warrants are owned by Motivated Workforce Consultants Limited (“MWC”), a company incorporated in the British Virgin Islands. The entire share capital of MWC is owned by Mr. Lau Ru Dong, the father of Mr. Lau Jin Wei, Jim.
- (2) The 60,000,000 ordinary shares and 6,600,000 warrants are owned by Inviting Finance Limited (“IFL”), a company incorporated in the British Virgin Islands. The entire share capital of IFL is owned by Mr. Choi Woon Man.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings “Directors' interests in shares and warrants” above and “Share option scheme” below, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



## REPORT OF THE DIRECTORS *(cont'd)*

### SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 (the “Old Scheme”) was terminated and another new share option scheme (the “New Scheme”) was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remained in force and all share options granted prior to such termination continued to be valid and exercisable in accordance therewith. As at 31 December 2001, there were 19,096,375 share options granted which remained outstanding under the Old Scheme.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the New Scheme include the Company’s directors, including the non-executive and independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any minority shareholders in the Company’s subsidiaries and any other person or entity determined by the directors as having contributed or may contribute to the development and growth of the Group. The New Scheme became effective on 20 December 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2001, the number of shares issuable under share options granted under the New Scheme was 30,760,000, which represented 10% of the Company’s shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares, at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the New Scheme, whichever is earlier.

## REPORT OF THE DIRECTORS (cont'd)

## SHARE OPTION SCHEME (cont'd)

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

The following share options were outstanding under the Old Scheme during the year:

								Price of Company's shares***	
Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	At	At
	At 1 January 2001	Granted during the year	Exercised during the year	At 31 December 2001				grant date of options HK\$	exercise date of options HK\$
<b>Executive directors</b>									
Mr. Lau Jin Wei, Jim	—	5,000,000	(1,250,000)	3,750,000	4 January 2001	4 January 2001 to 3 January 2004	0.80	0.98	1.21
Mr. Choi Woon Man	—	1,875,000	(625,000)	1,250,000	4 January 2001	4 January 2001 to 3 January 2004	0.80	0.98	1.06
Mr. Li Kwong Mo, Peter	—	5,000,000	(500,000)	4,500,000	4 January 2001	4 January 2001 to 3 January 2004	0.80	0.98	1.04
Ms. Wong Wai Kwan, Connie	—	1,250,000	(416,625)	833,375	4 January 2001	4 January 2001 to 3 January 2004	0.80	0.98	1.24
Mr. Hui Man, Herman	—	5,000,000	(1,625,000)	3,375,000	4 January 2001	4 January 2001 to 3 January 2004	0.80	0.98	1.24
	—	18,125,000	(4,416,625)	13,708,375					

The share options held by Mr. Hui Man, Herman as at 31 December 2001 were fully exercised prior to his resignation as a director of the Company on 31 January 2002.

## REPORT OF THE DIRECTORS (cont'd)

## SHARE OPTION SCHEME (cont'd)

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Price of Company's shares***		
	At 1 January 2001	Granted during the year	Exercised during the year	At 31 December 2001			Exercise price of share options** HK\$	At grant date of options HK\$	At exercise date of options HK\$
<b>Non-executive director</b>									
Professor Ouyang Fan	—	100,000	—	100,000	5 January 2001	5 January 2001 to 4 January 2004	0.81	1.09	N/A
<b>Independent non-executive directors</b>									
Mr. Ou Ying Ji	—	100,000	—	100,000	5 January 2001	5 January 2001 to 4 January 2004	0.81	1.09	N/A
Mr. Yip Wai Leung, Jerry	—	100,000	—	100,000	4 January 2001	4 January 2001 to 3 January 2004	0.80	0.98	N/A
	—	200,000	—	200,000					
<b>Other employees</b>									
In aggregate	—	6,575,000	(6,187,000)	388,000	4 January 2001	4 January 2001 to 3 January 2004	0.80	0.98	1.15
	—	4,700,000	—	4,700,000	16 November 2001	16 November 2001 to 15 November 2004	1.30	1.61	N/A
	—	11,275,000	(6,187,000)	5,088,000					
Share options granted under the Old Scheme	—	29,700,000	(10,603,625)	19,096,375					

## REPORT OF THE DIRECTORS (cont'd)

## SHARE OPTION SCHEME (cont'd)

The following share options were outstanding under the New Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Price of Company's shares***		
	At 1 January 2001	Granted during the year	Exercised during the year	At 31 December 2001			Exercise price of share options** HK\$	At grant date of options HK\$	At exercise date of options HK\$
<b>Suppliers of goods or services, customers and others</b>									
In aggregate	—	30,760,000	—	30,760,000	24 December 2001	24 December 2001 to 23 December 2004	1.40	1.33	N/A

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of a capitalisation issue of profits or reserves, rights issue, consolidation, sub-division or reduction of the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange's closing prices over all of the exercises of options within the disclosure category.

Summary details of the Company's share option scheme are also set out in note 28 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors, employees, suppliers, customers and others, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

## REPORT OF THE DIRECTORS *(cont'd)*

### SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company, pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Percentage of the Company's share capital
MWC	66,000,000	21.46
IFL	<u>60,000,000</u>	<u>19.51</u>

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in shares and warrants" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance, at 31 December 2001.

### POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 35 to the financial statements.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the accounting period covered by the annual report, except that the non-executive director and the independent non-executive directors of the Company are not appointed for a specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

## REPORT OF THE DIRECTORS *(cont'd)*

### AUDIT COMMITTEE

The Company has an audit committee (the “Committee”) which was established in accordance with the requirements of the Code. The Committee comprises two independent non-executive directors of the Company, Mr. Ou Ying Ji and Mr. Yip Wai Leung, Jerry. The principal duties of the Committee include the review and supervision of the Group’s financial reporting process and internal controls.

### 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

**Lau Jin Wei, Jim**

*Chairman*

Hong Kong

19 March 2002