

Directors' Report

The board of directors (the "Board") of the Company is pleased to present its 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 and those of its principal subsidiaries are set out in note 11 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and result by business activities and geographical area of operations for the year ended 31 December 2001 is set out in note 32 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 20.

The Board has not recommended the payment of any final dividend for the year ended 31 December 2001 (2000: Nil).

GROUP FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group for the last five financial years is set out on pages 58 and 59.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 4% of the Group's total turnover for the year, and sales to the largest customer included therein amounted to approximately 3%.

The aggregate purchases attributable to the five largest suppliers accounted for approximately 35% of the Group's total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 14%.

At no time during the year have the directors, their associates, nor those shareholders which, to the knowledge of the directors, own more than 5% of the Company's share capital, had any interest in the five largest customers and suppliers.

Directors' Report *(Cont'd)*

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group are set out in note 10 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 23 to the financial statements.

DIRECTORS

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

Executive Directors:

Mr. Richard John Siemens <i>(Chairman)</i>	
Mr. Kuldeep Saran <i>(Deputy Chairman)</i>	(appointed on 18 December 2001)
Mr. Derrick Francis Bulawa	
Mr. Ong Soon Kiat	(resigned on 23 March 2001)
Mr. Lim Shyang Guey	

Non-executive Directors:

Mr. Mokhzani Bin Mahathir	(resigned on 3 May 2001)
Mr. Peng Chian Chua	(resigned on 25 April 2001)
Mr. Chong Ching Lai	(appointed on 8 June 2001 and resigned on 14 January 2002)
Mr. Ngan Chor Man *	(resigned on 25 April 2001)
Mr. Fung Che Kwong, Peter *	(resigned on 21 August 2001)
Mr. Johnson Chan *	(appointed on 23 March 2001 and resigned on 21 August 2001)
Mr. William Bruce Hicks	(appointed on 18 December 2001)
Mr. Shane Frederick Weir *	(appointed on 21 August 2001)
Mr. Matthew Brian Rosenberg *	(appointed on 21 August 2001)

* *Independent Non-executive Directors*

In accordance with the Articles 86 and 87 of the Company's Bye-laws, Messrs. Lim Shyang Guey, Kuldeep Saran, William Bruce Hicks, Shane Frederick Weir and Matthew Brian Rosenberg shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2001, the directors had the following interests in the issued share capital and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:

Interests in shares of the Company

Name of director	Personal interests	Number of ordinary shares of HK\$0.02 each held		Total interests
		Corporate interests	Other interests	
Mr. Richard John Siemens	–	513,529,500 (notes 1 and 2)	–	513,529,500
Mr. William Bruce Hicks	23,199,142	186,837,500 (note 3)	–	210,036,642
Mr. Kuldeep Saran	3,412,000	183,537,500 (note 4)	–	186,949,500
Mr. Shane Frederick Weir	100,000	–	–	100,000

Notes:

- During the year, 403,529,500 shares were subscribed under a rights issue of 3,139,294,672 rights shares of HK\$0.02 each at a price of HK\$0.0425 per rights share (the "Rights Issue").
- 24,000,000 shares are beneficially owned by Siemens Enterprises Limited, a company controlled by Mr. Richard John Siemens. 489,529,500 shares are beneficially owned by Goldstone Trading Limited, a company controlled by Mr. Siemens.
- 186,837,500 shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.
- 183,537,500 shares are beneficially owned by Future (Holdings) Limited, a company controlled by Mr. Kuldeep Saran.

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

Interests in share options of the Company

- (a) A summary of movements in share options granted during the year to directors and eligible employees under the Company's employee share option scheme (the "Scheme"), which particulars are further described under the heading of Share Option Schemes below, and their share options remaining outstanding at 31 December 2001 were as follows:

Director	Date of grant	Exercisable period	Adjusted exercise price (note 1) HK\$	Number of share options				
				At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2001
Mr. Richard John Siemens	24.01.2000	24.01.2000-24.10.2009	0.23	28,700,000	–	–	–	28,700,000
Mr. Derrick Francis Bulawa	25.10.1999	25.10.2000-24.10.2009	0.14	23,961,235	–	–	–	23,961,235
	16.11.1999	16.11.2000-24.10.2009	0.16	4,750,000	–	–	–	4,750,000
	23.12.1999	23.12.2000-24.10.2009	0.20	250,000	–	–	–	250,000
	03.01.2000	03.01.2001-24.10.2009	0.23	25,000	–	–	–	25,000
	25.10.2000	25.10.2001-24.10.2009	0.12	9,532,274	–	–	–	9,532,274
								38,518,509
Mr. Lim Shyang Guey	25.10.1999	25.10.2000-24.10.2009	0.14	4,500,000	–	–	–	4,500,000
	24.01.2000	21.02.2000-24.10.2009	0.23	1,500,000	–	–	–	1,500,000
	25.01.2000	01.03.2000-24.10.2009	0.23	500,000	–	–	–	500,000
	03.03.2000	03.04.2000-24.10.2009	0.76	3,800,000	–	–	–	3,800,000
								10,300,000

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

Interests in share options of the Company (Cont'd)

(a) (Cont'd)

	Date of grant	Exercisable period	Adjusted exercise price (note 1) HK\$	Number of share options				
				At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2001
Employees								
	25.10.1999	25.10.2000-24.10.2009	0.14	13,650,000	–	–	–	13,650,000
	16.11.1999	16.11.2000-24.10.2009	0.16	1,295,000	–	(8,000) (note 2)	(1,212,000)	75,000
	23.12.1999	23.12.2000-24.10.2009	0.20	3,700,000	–	–	–	3,700,000
	03.01.2000	03.01.2001-24.10.2009	0.23	3,000,000	–	–	–	3,000,000
	24.01.2000	21.02.2000-24.10.2009	0.23	6,135,000	–	–	(135,000)	6,000,000
	25.01.2000	01.03.2000-24.10.2009	0.23	2,000,000	–	–	–	2,000,000
	03.03.2000	03.04.2000-24.10.2009	0.76	15,200,000	–	–	–	15,200,000
	03.03.2000	03.03.2001-24.10.2009	0.76	3,650,000	–	–	(500,000)	3,150,000
	28.04.2000	28.04.2001-24.10.2009	0.33	5,975,000	–	–	(1,060,000)	4,915,000
	01.06.2000	01.06.2001-24.10.2009	0.34	250,000	–	–	(250,000)	–
	09.08.2000	09.08.2001-24.10.2009	0.23	1,000,000	–	–	(450,000)	550,000
	25.10.2000	25.10.2001-24.10.2009	0.12	840,000	–	–	(440,000)	400,000
	16.05.2001	16.05.2001-01.04.2003	0.08	–	200,000 (note 3)	–	–	200,000
52,840,000								
TOTAL				134,213,509	200,000	(8,000)	(4,047,000) (note 4)	130,358,509

Directors' Report *(Cont'd)*

DIRECTORS' INTERESTS IN SECURITIES *(Cont'd)*

Interests in share options of the Company *(Cont'd)*

(a) *(Cont'd)*

During the year, no share options were granted to or exercised by the directors of the Company under the Scheme.

Notes:

1. The exercise price per share option was adjusted by the multiplier of 0.3320 in January 2002 as a result of the completion of the Rights Issue.
2. The weighted average closing market price per share immediately before the date on which the 8,000 share options were exercised was approximately HK\$0.387.
3. The closing market price per share at the date preceding the date on which the 200,000 share options were granted was HK\$0.32.
4. The total of 4,047,000 share options lapsed during the year upon cessation of employment of certain employees.
5. The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial year. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

- (b) No share options were granted under any of the employee share option schemes of certain subsidiaries of the Company, which particulars are further described under the heading of Share Option Schemes below.

Save as disclosed above, none of the directors, chief executive and/or any of their associates had any interests in the issued share capital of the Company or any of its associated corporations (as defined in the SDI Ordinance) at 31 December 2001 pursuant to the SDI Ordinance and the Model Code.

ARRANGEMENT TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable any director or any chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors, the chief executive, nor any of their spouses or children under the age of 18 had any right to subscribe for the shares in, or debentures of the Company, or had exercised any such right during the year.

Directors' Report (Cont'd)

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service contracts with independent non-executive directors who have been appointed for an initial period of one year commencing on 1 January 2002.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance 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, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDER

At 31 December 2001, according to the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, the Company was notified that the following shareholder had or was deemed to have an interest of 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares of HK\$0.02 each held	Percentage of total issued share capital
Mr. Richard John Siemens *	513,529,500	10.93%

* *The interest is the same as the corporate interest that Mr. Siemens had as disclosed under the heading of Directors' Interests in Securities above.*

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 at 31 December 2001.

SHARE CAPITAL

Details of movements in the Company's share capital during the year and the purpose of the shares issued are set out in note 21 to the financial statements.

SHARE OPTION SCHEMES

- (a) In accordance with the Scheme which was adopted in a special general meeting held on 25 October 1999, the directors of the Company may, at their discretion, invite eligible employees of the Group, including executive directors of the Company, to take up options to subscribe for shares in the Company under the terms and conditions set out therein for purpose of attracting and retaining high calibre employees and motivating them to higher level of performance in order to enhance long-term shareholder value.

Directors' Report *(Cont'd)*

SHARE OPTION SCHEMES *(Cont'd)*

Summary of principal terms of the Scheme are as follows:–

(i) Maximum number of shares available for issue under the Scheme

The maximum number of the shares in respect of which share options may be granted (together with share options exercised and share options then outstanding) at any time under the Scheme will be such number of shares, when aggregated with shares subject to any other scheme, as shall represent 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to this Scheme). At year ended 2001, 318,418,005 shares were available for issue under the Scheme and it represented 6.78% of the total issued share capital of the Company.

No qualifying participant shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

(ii) Period and payment on acceptance of share options

Under the Scheme, an offer may be accepted by an employee in respect of shares for which they are offered to such employee when the duplicate letter comprising acceptance of the offer duly signed by the employee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is payable on acceptance of the offer within 28 days from the offer date.

(iii) Basis of determining the exercise price

The subscription price for the Company's shares under the Scheme is determined by the Board and shall not be less than 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the Company's shares, whichever is the higher.

(iv) Remaining life of the Scheme

The Board shall be entitled at any time within 10 years between 25 October 1999 and 24 October 2009 to offer the grant of an option to any qualifying participants.

- (b) During the year, certain subsidiaries of the Company adopted employee share option schemes ("Subsidiary Schemes"), each in terms and conditions as adopted and approved in a special general meeting of the Company held on 25 April 2001, whereby certain directors and chief executive of the Company, who are also directors of these subsidiaries, are eligible under Subsidiary Schemes to subscribe for shares in the respective subsidiaries under the terms and conditions stipulated therein. No share option has ever been granted in any of the Subsidiary Schemes since adoption.

Directors' Report *(Cont'd)*

PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars regarding the principal subsidiaries of the Company are set out in note 11 to the financial statements.

LIQUIDITY

The Group has managed to maintain stable liquidity with cash and cash equivalents of approximately HK\$118,456,000 (2000: HK\$412,988,000).

BANK LOANS AND OVERDRAFTS

The Group has no bank loans or overdrafts at 31 December 2001. There was no interest capitalised by the Group during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

RETIREMENT BENEFITS SCHEMES

Since December 2000, the Group, other than overseas subsidiaries, has operated a Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all qualifying employees. The assets of the MPF Scheme are held separately from those of the Group and are under the control of an independent trustee. Under the MPF Scheme, both the Group and each of the qualifying employees are required to make monthly contributions at 5% of the qualifying employee's basic monthly income, up to a maximum of HK\$1,000 each per month. The employees may also choose to make voluntary matching contribution above the said maximum level. The contributions which are made based on percentage of employees' income and charged to the income statement represent contributions payable to the MPF Scheme by the Group, other than overseas subsidiaries, to funds at rates specified in the rules of the MPF Scheme.

The overseas subsidiaries have also operated their pension schemes, or similar arrangement, for their employees in accordance with the statutory limits prescribed by the relevant legal requirements.

PARTICULARS OF DIRECTORS

Biographical details of directors of the Company are set out on pages 17 to 18 under Directors' Profile.

REMUNERATION POLICIES AND EMPLOYEE RELATIONS

At 31 December 2001, the Group employed 226 full-time employees. The Group has maintained good relationships with its employees. None of the Group's employees are represented by a labour union.

Directors' Report *(Cont'd)*

CODE OF BEST PRACTICE

In the opinion of the directors, save and except that the independent non-executive directors were not appointed for a specific term during the year but were subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws, 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 ended 31 December 2001.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2001.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda although there are no restrictions against such rights under the laws of Bermuda.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint the auditors, Messrs. Moores Rowland, *Chartered Accountants, Certified Public Accountants*.

On behalf of the Board

Richard John Siemens

Chairman

Hong Kong, 3 April 2002