

The directors submit their report together with the audited accounts for the year ended 31st December 2001.

## PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries during the year were the investment in securities listed on The Stock Exchange of Hong Kong Limited and unlisted investments with a potential for earnings growth and capital appreciation. The activities of the principal subsidiaries are set out in Note 12 to the accounts.

The Group's turnover for the year comprised dividends from listed and unlisted investments, and interest earned from investments in convertible notes and bonds, bank deposits and other sources. The Group's contribution to operating profit for the year comprised gain on disposal of listed and unlisted investments and commission received from underwriting services for securities listed on The Stock Exchange of Hong Kong Limited.

## SEGMENT INFORMATION

No analysis of the Group's turnover and contribution to operating profit for the year set out by principal activities and geographical markets is provided as the Group has one single business segment, investment holding, and less than 10% of the consolidated turnover and less than 10% of the consolidated results of the Group are attributable to markets outside Hong Kong.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 16.

The directors do not recommend payment of a dividend.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 19 to the accounts.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December, 2001 are set out in Note 19(b) to the accounts.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$3,000 (2000: HK\$40,000).

## FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 10 to the accounts.

## SHARE CAPITAL

Details of the movements in share capital and share options of the Company are set out in Note 18 to the accounts.

## CONVERTIBLE BONDS

Details of the issue of convertible bonds by the Group are set out in Note 20 to the accounts.

## FIVE YEAR FINANCIAL SUMMARY

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

## DIRECTORS

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

Lee Fong Lit, David  
Chow Pok Yu, Augustine  
Ho Man Kei, Norman  
Tong Kim Weng, Kelly

In accordance with Article 98(b) of the Company's Articles of Association, Mr. Ho Man Kei will retire at the forthcoming annual general meeting but, being eligible, offers himself for re-election.

Mr. Ho Man Kei, Norman and Mr. Tong Kim Weng, Kelly are independent non-executive directors.

## DIRECTORS' SERVICE CONTRACTS

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

## BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out below:

### Executive Directors:

**Mr. Lee Fong Lit, David**, aged 55, obtained his BSc degree from McGill University in Montreal and his MBA degree from Columbia University, New York. He assumed the Chairmanship of the Board of Directors of Harmony Asset Limited in February 1998. Mr. David Lee has over 28 years experience in the international finance and investment management industry. He is involved in investing in equity markets of Singapore, Malaysia and Hong Kong.

**Dr. Chow Pok Yu, Augustine**, aged 49, is also the Chief Executive Officer of the Company. He holds a MSc from London Business School and Ph.D from University of South Australia. Dr. Chow is a director of Haywood Investments Limited, which is a listed investment company in Hong Kong. Dr. Chow has vast experience in managing public listed companies that are involved in manufacturing, marketing and financial services and specialising in mergers and acquisitions.

### Non-executive Directors:

**Mr. Ho Man Kei, Norman**, aged 35, is an Assistant Fund Manager in Value Partners Limited, a fund management company in Hong Kong. Mr. Ho graduated with a Bachelor of Social Science degree from the University of Hong Kong in 1989. Mr. Ho joined the Board as a non-executive Director in May 1998 and was appointed a member of the Audit Committee of the Company in December 1998.

**Mr. Tong Kim Weng, Kelly**, aged 53, obtained his BA(Hons) in Political Science from Victoria University, New Zealand. He was a former senior officer of the New Zealand Trade Department. After leaving the public sector, he served in various capacities as a consultant involved in merger and acquisition work, marketing, promotion, sourcing and arranging private equity for a variety of projects. He joined the Board as a non-executive Director in November 1998 and was appointed a member of the Audit Committee in December 1998.

### DIRECTORS' INTERESTS IN CONTRACTS

Details of Dr. Chow Pok Yu, Augustine's interest in contracts of significance in relation to the Group's business are set out in Note 22 to the accounts.

Save as disclosed above, no other contracts of significance in relation to the Group's business to which the Company or 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.

### CONNECTED TRANSACTIONS

- (a) Significant related party transactions entered by the Group during the year ended 31st December, 2001, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), are disclosed in Note 23 to the accounts.
- (b) Other related party transactions, which also constitute connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14 of the Listing Rules, are disclosed in Note 22 to the accounts.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st December, 2001, the interests of the directors and chief executive in the share capital of the Company and its associated corporations (within the meaning of the Hong Kong Securities (Disclosures of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

### (a) Ordinary shares of HK\$0.01 each in the Company

Name of director	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Lee Fong Lit, David	—	—	288,012,608*	—	288,012,608*

### (b) 2002 warrants in the Company

Name of director	Number of warrants				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Lee Fong Lit, David	—	—	41,144,658*	—	41,144,658*

The above warrants carry rights to subscribe for shares in the Company at a subscription price of HK\$0.39 per share during the period from 24th May, 2000 to 31st May, 2002.

\*Note: These 288,012,608 shares and 41,144,658 warrants are held by Sino Path Consultants Limited, a company which is held 70% by Mr. Lee Fong Lit, David and 30% by Dr. Chow Pok Yu, Augustine.

Save as disclosed herein and the share options held by the directors as disclosed below, none of the directors or chief executives of the Company had any interest in the equity or debt securities of the Company or any of its associated corporation (within the meaning of the SDI Ordinance) as recorded in the register required to be kept under section 29 of the SDI Ordinance.

### **Interest in share options to acquire ordinary shares of the Company**

A share option scheme was adopted on 22nd May, 2000 (“Share Option Scheme”) as an incentive to the employees and the directors may, at their discretion, invite full time employees including executive directors of the Group, to take up options to subscribe for shares of the Company at a price to be determined by the directors which will not be less than 80 per cent of the average closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the five trading days immediately preceding the date of grant of the option or the per value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted (together with shares issued pursuant to options exercised and shares in respect of which any options remain outstanding) under the Share Option Scheme of the Company may not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Share Option Scheme.

No option may be granted to any one employee which, if exercised in full, would result in the total number of shares already issued or issuable to him under all options granted to him exceeding 25 per cent of the aggregate number of shares for the time being issued and are issuable under the Share Option Scheme. The offer of a grant of other option may be accepted within 28 days from the date of offer with a payment of consideration of HK\$1.00 by the grantee. Each option gives the holder the right to subscribe for one share at the relevant exercise price.

The exercisable period of an option should not exceed a period of three years from the date of grant of the option.

The Share Option Scheme will remain in force for a period of three years commencing on 22nd May, 2000.

The Stock Exchange of Hong Kong Limited amended the rules for share option scheme under the Listing Rules. The new requirements have come into effect from 1st September, 2001 and make some of the provisions of the Share Option Scheme no longer applicable.

## Report of the Directors

The following persons had the following personal interests in options to subscribe for shares of the Company. Each share option entitles the holder to subscribe for one share in the Company.

	Number of options			Exercised Price	
	As at 1/1/2001	Granted	Exercised	As at 31/12/01	HK\$
Lee Fong Lit, David	18,000,000	–	–	18,000,000	0.24
Chow Pok Yu, Augustine	18,000,000	–	–	18,000,000	0.24
Aggregate total for employees	38,500,000	–	–	38,500,000	0.22

These options were granted under the Share Option Scheme on 1st August, 2000 at a consideration of HK\$1 for each grantee. The options are exercisable at any time prior to 31st July, 2003.

No option was granted, exercised, lapsed nor cancelled during the year.

Save as disclosed above, none of the directors and chief executive (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares or warrants of the Company and its associated corporations (within the meaning of the SDI Ordinance) during the year and upto the date of this report.

Save as disclosed above, at no time during the year and up to the date of this report 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.

### SUBSTANTIAL SHAREHOLDERS

As at the date of this report, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, shows that the Company has not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the directors and chief executive as disclosed above.

### MANAGEMENT CONTRACTS

Details of significant management contracts in relation to the Company's business are set out in Note 22 in the accounts.

Save as disclosed above, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Memorandum and Articles of Association or the laws of the Cayman Islands.

## **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the Group earned less than 30% of its turnover from its five largest customers.

The Group is an investment company. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules except that independent non-executive directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

## **AUDIT COMMITTEE**

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Ho Man Kei, Norman and Mr. Tong Kim Weng, Kelly. Two meetings were held during the current financial year.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

Set out below is information disclosed pursuant to paragraph 8.10(2) of the Listing Rules:

Dr. Chow Pok Yu, Augustine is a director of Haywood Investments Limited. The company engages in investments in listed and unlisted securities which constitute competing business to the Group.

The Board of Directors of the Group has established procedures to identify any conflict of interests due to the directorship of Dr. Chow Pok Yu, Augustine in the above company. If conflict of interest arises, Dr. Chow Pok Yu, Augustine will abstain from participating in making investment decisions. The Group is therefore capable of carrying on such business independently of, and at arm's length from the said competing business.

### RETIREMENT BENEFITS SCHEME

The Group operated a retirement scheme under rules and regulations of the Mandatory Provident Fund ("MPF") Scheme Ordinance since 1st December 2000. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group has chosen to contribute 5% of the eligible employees' salaries. The contributions charged to the profit and loss account for the year ended 31st December 2001 amounted to HK\$110,103.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

**Lee Fong Lit, David**

*Chairman*

Hong Kong, 19th April, 2002