

REPORT OF THE DIRECTORS

The directors 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.

The principal activities of the subsidiaries comprise the manufacture and trading of steel and electronic products. During the year, the Group deconsolidated its steel manufacturing business, thereby discontinuing this line of business, further details of which are included in note 16 to the financial statements. There were no other 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 results by principal activity and geographical area of operations for the year ended 31 December 2001 is as 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 13 to 46.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 47. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's authorised and issued share capital, together with the reasons therefor, and details of the Company's share options, are set out in note 24 to the financial statements.

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.

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.

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RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company had no reserves available for distribution. The Company's share premium account, in the amount of HK\$410,507,000, may be distributed in the form of fully paid bonus shares. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company, in the amount of HK\$88,380,000 as at 31 December 2001, is distributable to shareholders in certain circumstances, prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest customers and suppliers accounted for less than 30% of the total sales and total purchases of the Group, respectively, for the year.

DIRECTORS

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

Executive Directors:

Lau Chi Yung, Kenneth *(Chairman)*
Tsang Pak Chung, Eddy *(Vice-Chairman)*
Leung Wei San, Saskia
Cho Po Hong, Jimmy

Independent Non-executive Directors:

Albert Thomas da Rosa, Junior
Choy Tak Ho

In accordance with the Company's bye-laws, Mr. Albert Thomas da Rosa, Junior and Mr. Choy Tak Ho, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out in the financial statements on page 6.

DIRECTORS' SERVICE CONTRACTS

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 of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES

As at 31 December 2001, the interest of a director in the ordinary share capital of the Company and its associate, as recorded in the register required to be kept pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), was as follows:

Name	Type of interest	Number of shares held	Percentage of the Company's share capital
Lau Chi Yung, Kenneth	Corporate	441,492,000	28.21

The above shares are ultimately controlled by Power Resources Holdings Limited, which acts as the trustee under the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr. Lau Chi Yung, Kenneth, his sisters and their respective families. Other than certain nominee shares in subsidiaries held by a director in trust for the companies in the Group, no director held an interest in the share capital of the Company's subsidiaries during the year.

Save as disclosed above, none of the directors or their associates had any interest in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

Apart from the share option scheme further described in the section "Share option scheme" below, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those transactions disclosed in note 27 to the financial statements, no director had a beneficial interest in any material contract to which the Company or any of its subsidiaries was a party during the year.

SHARE OPTION SCHEME

On 8 March 1993, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, the directors may, at their discretion, at any time during the 10 years from the date of approval of the Scheme, grant to directors and employees of the Group options to subscribe for shares in the share capital of the Company. The share subscription price of any options granted under the Scheme will be the higher of 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date on which an option is granted and the nominal value of the shares. The maximum number of shares over which options may be granted may not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which have been issued under the Scheme.

Pursuant to a directors' resolution passed on 7 February 1998, options to subscribe for an aggregate of 58,500,000 shares in the Company within 10 years from the date of grant, at a subscription price of HK\$0.112 per share, were granted by the Company. None of these share options has since been exercised by the grantees. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 58,500,000 additional ordinary shares and in cash proceeds, before share issue expenses, to the Company of HK\$6,552,000.

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SHARE OPTION SCHEME (Cont'd)

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

Name of director	Date of grant	Exercise price of share options HK\$	Number of share options					At 31 December 2001
			At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	
Lau Chi Yung, Kenneth	7 February 1998	0.112	19,500,000	—	—	—	—	19,500,000
Tsang Pak Chung, Eddy	7 February 1998	0.112	19,500,000	—	—	—	—	19,500,000
Leung Wei San, Saskia	7 February 1998	0.112	19,500,000	—	—	—	—	19,500,000
			<u>58,500,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>58,500,000</u>

Summary details of the Company’s share option scheme are also set out in note 24 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 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.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, according to the register kept by the Company under Section 16 of the SDI Ordinance and so far as the directors are aware, the following were the only parties who, directly or indirectly, held 10% or more of the issued share capital of the Company:

Name	Number of shares held	Percentage of the Company’s share capital
Power Resources Holdings Limited #	441,492,000	28.21
Lucky Speculator Limited	441,492,000	28.21
Multifield International Holdings Limited	441,492,000	28.21
Multifield International Holdings (BVI) Limited	441,492,000	28.21
Limitless Investment Limited	441,492,000	28.21

Power Resources Holdings Limited was deemed to have a beneficial interest in 441,492,000 shares of the Company by virtue of its indirect interests in Lucky Speculator Limited, Multifield International Holdings Limited, Multifield International Holdings (BVI) Limited and Limitless Investment Limited.

Save as disclosed herein, according to the above-mentioned register of interests and so far as the directors are aware, there were no persons who, directly or indirectly, held or were beneficially interested in 10% or more of the issued share capital of the Company at 31 December 2001.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, throughout the accounting year covered by the annual report, except that the Independent Non-executive Directors of the Company were not appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the provisions of the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

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 Chi Yung, Kenneth

Chairman

Hong Kong

19 April 2002