

Report of the Directors

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

PRINCIPAL ACTIVITIES

The Group is principally engaged in investing in and operating information technology companies through a network of divisions. These divisions incorporate a digital solutions provider, a multimedia enabler, a publishing and content management solutions provider, an on-line expert site, a vertical trading platform and other strategic investments in optical networking. The Group retains the traditional non-IT related trading business which consisted of importing, marketing, retailing and distributing sanitary fixtures and fittings and a range of hardware, industrial and consumer products. In addition, the Group is a specialist contractor in the design and installation of plumbing and drainage systems and provides related engineering services in Hong Kong.

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 set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 70.

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

SUMMARY OF 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 71. This summary does not form part of the audited financial statements.

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 13 and 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

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

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.

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 25 to the financial statements.

At 31 December 2001, the Company did not have any reserves available for distribution to shareholders. Under the laws of Bermuda, the Company's share premium account, in the amount of HK\$237,549,000, may be distributed in the form of fully paid bonus shares.

Under the Companies Act 1981 of Bermuda, the Company may make distributions from its contributed surplus in certain circumstances, prescribed by Section 54 thereof, which the Company was unable to satisfy as at 31 December 2001.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 36% of the total sales for the year and sales to the largest customer included therein amounted to approximately 26%. Purchases from the Group's five largest suppliers accounted for 35% of total purchases for the year and purchases from the largest supplier included therein amounted to 14%.

As far as the directors are aware, neither the directors, their associates, nor those shareholders which to the 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 referred to above.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

CHIU, Chun Leong David
 CHIU, Chung Kwong John
 KAN, Siu Kei Laurie
 VONG, Tat leong David

Non-executive directors:

CHAN, Jui Tun Jedi
 HSU, Ta Lin
 KO, Pii Jae Peter

Independent non-executive directors:

CHAN, Kin Hang Johnny	(resigned on 29 May 2001)
LEUNG, Nai Pang Norman	(resigned on 31 October 2001)
TSANG, Wai Chun Marianna	(appointed on 31 December 2001)
WONG, Ying Wai Wilfred	

In accordance with bye-law 86(2) of the Company's Bye-laws, Ms. Tsang Wai Chun, Marianna holds office only until the forthcoming annual general meeting and, being eligible, will then offer herself for re-election.

In accordance with bye-law 87(2) & (3) of the Company's Bye-laws, Mr. Ko Pil Jae, Peter and Mr. Chan Jui Tun, Jedi will retire from office by rotation. Mr. Ko Pil Jae, Peter will be eligible for re-election and Mr. Chan Jui Tun, Jedi will not be eligible for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and senior management of the Group are set out on pages 8 to 11 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Kan Siu Kei, Laurie and Mr. Vong Tat leong, David have entered into service contracts with the Company for a term of three years with effect from 1 June 2000 until 31 May 2003, which will continue thereafter until terminated by either party by not less than one month's prior written notice.

Save as disclosed above, none of the directors 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 CONTRACTS

Save as disclosed in note 30 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.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the directors of the Company and their associates held the following interests in the issued share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong (the "SDI Ordinance"):

Name of director	Number of ordinary shares held and nature of interest		
	Personal	Corporate	Total
CHIU, Chun Leong, David	100,000	–	100,000
KAN, Siu Kei, Laurie	–	137,000,000	137,000,000
VONG, Tat leong, David	–	137,000,000	137,000,000

Notes:

Messrs. Kan Siu Kei, Laurie and Vong Tat leong, David were interested in an aggregate of 137,000,000 shares through their respective interests in i100 Holdings Corporation ("i100 Holdings"). i100 Holdings is beneficially owned as to 50% by Mr. Kan Siu Kei, Laurie through Romaine Investment Limited ("Romaine"), and 40% by Mr. Vong Tat leong, David through Bev-Tiff Corporation ("Bev-Tiff"). Each of Romaine and Bev-Tiff are 100% owned and controlled by Mr. Kan Siu Kei, Laurie and Mr. Vong Tat leong, David, respectively.

Save as disclosed above, none of the directors of the Company or their associates had any personal, family, corporate or other interest in the securities of the Company or any of its associated corporations required to be disclosed pursuant to the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were 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, or any of its subsidiaries a party to any arrangement to enable the Company's directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

On 21 August 1991, the Company approved a share option scheme (the "1991 Share Option Scheme") which was terminated by an ordinary resolution of the shareholders at the annual general meeting on 22 May 2001, but the subsisting options granted thereunder prior to the termination remain valid and exercisable in accordance with the terms of the 1991 Share Option Scheme.

On 22 May 2001, a share option scheme (the "2001 Share Option Scheme") was approved by the shareholders of the Company. Under the terms of the 2001 Share Option Scheme, the executive committee to the board of directors (the "Executive Committee") may, at their discretion, grant options to directors and employees of the Group to subscribe for shares in the Company subject to the terms and conditions stipulated therein. On the same date, solution100 Corporation, being a wholly-owned subsidiary of the Company, adopted a share option scheme under which options to subscribe for shares in the share capital of solution100 Corporation may be granted to the qualifying persons from time to time subject to the terms and conditions stipulated therein. No share option has been granted under the share option scheme of solution100 Corporation since its adoption.

On 23 August 2001, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in relation to share option scheme which took effect on 1 September 2001. Under the new provision on Chapter 17 of the Listing Rules, it has significant effects on the implementation of the 2001 Share Option Scheme. With a view to bringing the Company's share option scheme in line with the new requirements of Chapter 17 of the Listing Rules, the board of directors intend to terminate the 2001 Share Option Scheme and to adopt a new share option scheme at the forthcoming annual general meeting of the Company to be held on 6 June 2002, and details of the amendments are set out in the circular sent together with this annual report.

Details of the 2001 Share Option Scheme (the "Scheme") together with certain of appropriate new provisions of Chapter 17 of the Listing Rules are as follows:—

(i) Purpose

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participant who contribute to the success of the Group's operations.

(ii) Participants

The Executive Committee may, at its absolute discretion, offer any executive director or employee of the Group to take up options to subscribe for the Company's shares.

Effective from 1 September 2001, 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.

No share options were issued to any of the directors, the chief executive or substantial shareholders or their associates during the year.

(iii) Maximum number of shares

The maximum number of shares subject to the Scheme must not (when aggregated with any shares subject to any other share option scheme of the Company including 1991 Share Option Scheme) exceed 10% of the shares in issue from time to time, excluding for this purpose shares allotted and issued upon the exercise of options granted under the 1991 Share Option Scheme and the 2001 Share Option Scheme. The total number of shares available for issue under the Scheme as at the date of the annual report is 50,561,300, representing approximately 5% of the issued share capital of the Company as of that date.

(iv) Maximum number of options to each participant

No participant shall be granted an option which, if exercised in full would result in such participant become entitled to subscribe for such number of Company's shares as when aggregated with the other Company's shares issued or issuable pursuant to subsisting option pursuant to the Scheme, would exceed 25 per cent. of the aggregate number of the Company's shares subject to the Scheme.

Effective from 1 September 2001, the maximum number of shares issuable under share options to each eligible participant in the 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.

(v) Exercise period

The exercise period of the share options granted is determinable by the Executive Committee, and commences after a certain vesting period and ends on the date which is not later than 10 years from the date of the grant of the option.

(vi) Amount payable on acceptance

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1.00 in total by the grantee.

(vii) The basis of determining the exercise price

The exercise price in respect of any particular option of the Scheme may be determined by the Executive Committee in its absolute discretion and notified to each offeree but may not be less than (i) 80 per cent. of the average of the official closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option or (ii) the nominal value of the Company's shares, whichever is the greater.

Effective from 1 September 2001, the exercise price may not be less than the higher of (i) the closing price of the Company's shares on the date of grant, which must be a business day, and (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant in accordance with the new rule 17.03 of the Listing Rules.

(viii) The remaining life of the Scheme

The Scheme is valid during the period of 10 years commencing on 22 May 2001, unless otherwise cancelled or amended.

The following share options granted to the continuous contract employees of the Group were outstanding under the Scheme during the year:

Date of options granted	Outstanding options as at 1 Jan 2001	Granted during the year	Lapsed during the year	Outstanding options as at 31 Dec 2001	Exercise period of share options²	Exercise price of share options³	Share price at grant date of options⁴
						HK\$	HK\$
2 Aug 2000 ¹	7,270,000	-	3,795,000	3,475,000	2 Aug 2001 to 1 Aug 2010	0.75	0.8
6 Oct 2000 ¹	3,140,000	-	1,600,000	1,540,000	6 Oct 2001 to 5 Oct 2010	0.47	0.56
26 Mar 2001 ¹	-	9,650,000	2,775,000	6,875,000	26 Mar 2002 to 25 Mar 2011	0.385	0.39
31 Aug 2001 ¹	-	39,410,000	674,000	38,736,000	31 Aug 2002 to 30 Aug 2011	0.4032	0.5
	<u>10,410,000</u>	<u>49,060,000</u>	<u>8,844,000</u>	<u>50,626,000</u>			

Notes:-

- (1) The vesting period is the period of three years after the date of grant. One-third of share option become exercisable after 12 months from the date of grant, and on subsequent of 18 months, 24 months, 30 months and 36 months of the date of grant, further one-sixth of the options become exercisable.
- (2) The exercise period was commencing on the first anniversary of the date of grant and ending 10 years after the date grant. No share options were exercised or cancelled during the year.
- (3) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (4) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange 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 closing prices over all of the exercises of options within the disclosure category.

18 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.

The directors consider that it is not appropriate to state a theoretical value of the share options granted during the year to the directors and employees, as a number of factors critical for the valuation cannot be determined accurately. The directors believe that the disclosure of the relevant exercise price and market price on the date of grant are sufficient. Any calculation of the value of the options based on a great number of speculative assumptions would henceforth not be meaningful and be misleading to shareholders.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following persons were, directly and indirectly, interested in 10% or more of the Company's issued share capital:

Name of shareholder	<i>Notes</i>	Number of shares held
Asia Pacific Growth Fund III, L.P.	1	472,000,000
i100 Capital Corporation	1	317,000,000
i100 Holdings	2	137,000,000
Bev-Tiff	2	137,000,000
Romaine	2	137,000,000

Notes:

1. Asia Pacific Growth Fund III, L.P. ("H&Q AP Fund") held a direct interest in 155,000,000 shares. H&Q AP Fund is beneficially interested in approximately 69.4% of the share capital of i100 Capital Corporation ("i100 Capital"). By virtue of the SDI Ordinance, H&Q AP Fund is therefore also deemed to be interested in the 317,000,000 shares held by i100 Capital.
2. i100 Holdings is owned as to 50% by Romaine, 40% by Bev-Tiff and 10% by Amie Corporation. Each of Romaine and Bev-Tiff is entitled to exercise or control the exercise of more than one-third of the voting power at the general meeting of i100 Holdings. By virtue of the SDI Ordinance, Romaine and Bev-Tiff are deemed to be interested in the 137,000,000 shares held by i100 Holdings.

Save as disclosed above, no person, other than Messrs. Kan Siu Kei, Laurie and Vong Tat leong, David, whose interests are set out under "Directors' interests in shares" above, had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

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 Listing Rules throughout the year, except that the independent non-executive directors of the Company are not appointed for 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 of the Company in accordance with the provisions of the Company's Bye-laws and that an audit committee was not maintained throughout the year.

AUDIT COMMITTEE

The Company established an audit committee on 10 May 1999. The written terms of reference were adopted on 18 September 2000, which records the audit committee's authority, responsibilities and specific duties. The audit committee previously comprised Mr. Chan, Kin Hang, Johnny and Mr. Wong, Ying Wai, Wilfred. As Mr. Chan, Kin Hang, Johnny resigned on 29 May 2001 as an independent non-executive director, he also ceased to act as an audit committee member. On 31 December 2001, Ms. Tsang, Wai Chun, Marianna was appointed as an independent non-executive director and a member of the audit committee to fill the casual vacancy.

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

KAN, Siu Kei Laurie

President & Chief Executive Officer

Hong Kong
22 April 2002