

The directors herein present their report and the audited financial statements of the Company for the period from 31 May 2001 (date of incorporation) to 31 December 2001 and of the Group for the year ended 31 December 2001.

GROUP REORGANISATION

The Company was incorporated in Bermuda as an exempted company with limited liability on 31 May 2001. Pursuant to a scheme of arrangement involving a share for share exchange, the Company became the new holding company of the Group and replaced Hi Sun Holdings Limited (formerly known as Guangdong Building Industries Limited) as the publicly listed holding company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 October 2001 when its shares were listed on the Stock Exchange. The Group has been treated as a continuing entity and, accordingly, the consolidated financial statements have been prepared on the basis that the existing Group structure had been in existence throughout the two years presented. Further details of the reorganisation are set out in note 1 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the construction and installation of curtain wall systems and aluminium windows for residential apartment blocks in Hong Kong. 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 results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 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 at that date are set out in the financial statements on pages 27 to 67.

The directors do not recommend the payment of any dividend for the year (2000: Nil).

PROPOSED BONUS ISSUE OF SHARES

The Board of Directors proposes a bonus issue ("Bonus Issue") of shares ("Bonus Shares") of HK\$0.01 each, credited as fully paid by way of capitalisation of part of the Company's share premium account, on the basis of one Bonus Share for every one existing share held by the shareholders of the Company (the "Shareholders") whose names appear on the registers of members of the Company on the record date for determination of entitlements to the Bonus Issue, conditional on Shareholders' approval at the forthcoming annual general meeting and the Listing Committee of the Stock Exchange granting or agreeing to grant listing of and permission to deal in the Bonus Shares. The Registers of Members of the Company will be closed from Tuesday, 21 May 2002 to Thursday, 23 May 2002, both dates inclusive, and the record date for entitlement to the Bonus Issue will be Thursday, 23 May 2002. A circular setting out details of the proposed Bonus Issue will be issued in due course.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 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 26 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$570,000. In addition, the Company's share premium account, in the amount of HK\$18,661,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive directors:

| | |
|-----------------|---------------------------------|
| CHEUNG Yuk Fung | (appointed on 29 November 2001) |
| KUI Man Chun | (appointed on 7 June 2001) |
| LI Wenjin | (appointed on 7 June 2001) |
| CHAN Yiu Kwong | (appointed on 12 July 2001) |
| SU Terry Lumin | (appointed on 12 July 2001) |
| XU Chang Jun | (appointed on 12 July 2001) |
| WANG Xiao Qing | (appointed on 12 July 2001) |

Independent non-executive directors:

| | |
|-------------------|-----------------------------|
| Colin Clive HILES | (appointed on 12 July 2001) |
| XU Sitao | (appointed on 12 July 2001) |

Pursuant to Bye-law 86(2) of the Company's bye-laws, Cheung Yuk Fung, Chan Yiu Kwong, Su Terry Lumin, Xu Chang Jun, Wang Xiao Qing, Colin Clive Hiles and Xu Sitao will hold office until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws 87(1) and 87(2), the remaining directors are subject to retirement by rotation and re-election at the annual general meeting of the Company. In accordance with Bye-law 87(1) of the Company's bye-laws, no director is required to retire by rotation.

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 14 of the annual report.

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 CONTRACTS

No directors had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the directors in the share capital of the Company and its associated corporations recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Ordinary shares

(i) Interest in the Company

| Name of director | Type of interest | Number of shares held |
|-------------------|------------------|--------------------------|
| Kui Man Chun | Corporate | 63,090,303 <i>(Note)</i> |
| Colin Clive Hiles | Personal | 20,000 |

Note: These shares are held by Kui Man Chun through Hi Sun Limited, a company in which Kui Man Chun holds a 99.16% interest, and Rich Global Limited, a wholly-owned subsidiary of Hi Sun Limited.

(ii) Interest in associated corporations

| Name of director | Name of associated corporation | Type of interest | Number of shares held |
|------------------|--------------------------------|------------------|-----------------------|
| Kui Man Chun | Rich Global Limited | Corporate | 2 |
| Kui Man Chun | Hi Sun Limited | Personal | 30,245,000 |
| Li Wenjin | Hi Sun Limited | Personal | 255,000 |

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the year was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement 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.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating talented employees in order to strive for future developments and expansion of the Group. Eligible participants of the Scheme include the Group's full-time employees, and executive and non-executive directors. The Scheme became effective on 29 November 2001 and unless otherwise cancelled or amended, will remain valid and effective for a period of 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme, together with any unexercised share options granted under the Scheme and any other share option schemes of the Company in issue, may not exceed 30% of the relevant class of securities of the Company in issue at any time. At 31 December 2001, no share options had been granted.

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 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 21 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 either immediately or 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 Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following interests of 10% or more of 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 of shareholder | Number of shares held | Percentage holding of the Company's share capital |
|-----------------------------|----------------------------|---|
| Rich Global Limited ("RGL") | 63,090,303 | 62.45 |
| Hi Sun Limited ("HSL") | 63,090,303 <i>(Note 1)</i> | 62.45 |
| Kui Man Chun | 63,090,303 <i>(Note 2)</i> | 62.45 |

Note 1: HSL is interested in the Company's share capital by virtue of its 100% shareholding in RGL.

Note 2: Kui Man Chun is interested in the Company's share capital by virtue of his interest in HSL.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

POST BALANCE SHEET EVENTS

Further details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 90% of the total sales of the Group and sales to the largest customer included therein amounted to 73%. Purchases from the five largest suppliers accounted for 67% of the total purchases of the Group and purchases from the largest supplier included therein amounted to 22%.

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 share capital had any beneficial interest in the Group's five largest customers or suppliers.

CODE OF BEST PRACTICE

Since the date of its listing on 17 October 2001, 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, except that the independent non-executive directors are not appointed for specific terms, but are subject to retirement by rotation pursuant to the Company's bye-laws.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code of Best Practice, for the purpose 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

During the year, Ernst & Young were appointed by the directors as the first auditors of the Company. 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

Cheung Yuk Fung
Chairman

Hong Kong
12 April 2002