

# REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of KG NextVision Company Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31 March 2002.

## Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. During the year, the Group disposed of and discontinued its construction and sale of building products businesses, further details of which are included in note 8 to the financial statements. There were no other changes in the nature of the Group’s principal activities during the year.

## Segment information

During the year, the Group was principally involved in the construction with significant business involvement in Hong Kong. Subsequent to the disposal during the year of all the subsidiaries involved in the construction and sale of building products, the Group was principally engaged in investment holding. Accordingly, no analysis of segment information by principal activity is presented.

## Results

The Group’s loss for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 22 to 73.

## 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 74. 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 note 15 to the financial statements.

## Share capital and share options

Details of the Company’s share capital and movements in the Company’s share options during the year, together with the reasons thereof, are set out in note 29 to the financial statements.

## REPORT OF THE DIRECTORS (Continued)

### **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 30 to the financial statements.

### **Distributable reserves**

As at 31 March 2002, the Company has no reserves available for distribution in accordance with the Companies Act 1981 of Bermuda (as amended).

### **Major customers and suppliers**

Due to the limitation as further explained in the "Basis of presentation and preparation" set out in note 1 to the financial statements, no analysis of major customers and suppliers is presented.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers.

## REPORT OF THE DIRECTORS (Continued)

### Directors

The directors of the Company during the year were:

#### Executive directors:

Dr. Jeffrey Len-Song KOO, *Chairman*

Mr. Jeffrey John Leon KOO, Jr.

Mr. Chester Chi-Yun KOO (resigned on 14 September 2001)

#### Independent non-executive directors:

Mr. Chin Yao LIN

Mr. Bernard King Bong LEUNG

In accordance with bye-law 110(A) of the Company, Mr Bernard King Bong LEUNG will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting. The remaining directors will continue in office.

### Directors' biographies

Biographical details of the directors of the Company are set on page 7 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 director had a significant beneficial interest in any contract of significance to the business of the Company to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

## REPORT OF THE DIRECTORS (Continued)

### Directors' interests in shares

As at 31 March 2002, the interests of the directors in the share capital of the Company or its associated corporation, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

#### Ordinary shares of the Company

Name of director	Note	Type of interest	Number of ordinary shares of the Company
Dr. Jeffrey Len-Song KOO	a	Corporate	1,795,000,000
Mr. Chin Yao LIN		Personal	3,242,000

*Note:*

- (a) These shares are owned by KG NextVision Corporation, the Company's ultimate holding company. Dr. Jeffrey Len-Song KOO has a 100% beneficial interest in Mastiff International Limited, which owns 100% interest in KG NextVision Corporation.

Other than certain nominee shares in subsidiaries held by the directors in trust for the Company, no directors have any interest in the share capital of the Company's subsidiaries.

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

### Directors' rights to acquire shares

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 holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## REPORT OF THE DIRECTORS (Continued)

### Share option scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors and employees of the Group. The Scheme became effective on 28 July 1992 for ten years.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 March 2002, the number of shares issuable under share options granted under the Scheme was 145,750,000 which represented approximately 6.07% of the Company’s shares in issue as at that date.

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 of Hong Kong Limited (the “SEHK”) closing price of the Company’s shares on the date of the offer of the share options; and (ii) a maximum of 20% discount over the average SEHK closing price of the Company’s shares for the five trading days immediately preceding the date of the offer.

The offer of a grant of share options may be accepted within 28 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 is three years commencing on the expiry of six months after the date on which the share options are granted.

Following the changes to the Rules Governing the Listing of Securities (“Listing Rules”) of the SEHK on share option schemes coming into effect on 1 September 2001, the total number of shares issued and to be issued upon exercise of the share options granted or to be granted each eligible participant (including both exercised and outstanding options) in any 12 month period must not exceed 1% of the issued share capital of a listed issuer at any time.

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. Yet, the Company has not granted any options on or after 1 September 2001.

## REPORT OF THE DIRECTORS (Continued)

### Share option scheme (continued)

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

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's share at grant date of options***
	At 1 April 2001	Lapsed during the year	At 31 March 2002			HK\$	HK\$
Directors:							
Jeffrey John Leon Koo, Jr.	30,000,000	–	30,000,000	20-6-2000	21-12-2000 to 20-12-2003	1.17	1.55
Other employees:							
Class A	14,250,020	(10,000,020)	4,250,000	20-06-2000	21-12-2000 to 20-12-2003	1.17	1.55
Class B	111,500,000	–	111,500,000	26-03-2001	27-09-2001 to 26-09-2004	0.32	0.395
	<u>155,750,020</u>	<u>(10,000,020)</u>	<u>145,750,000</u>				

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* 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.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the SEHK closing price on the trading day immediately prior to the date of the grant of the options.

Summary details of the Company's share option scheme are also set out in note 29 to the financial statements.

Since there was no share option granted under the Company's share option scheme during the year, no value of share options granted has been disclosed accordingly.

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 or lapsed prior to their exercise date are deleted from the register of outstanding options.

## REPORT OF THE DIRECTORS (Continued)

### Substantial shareholders

At 31 March 2002, the following interests of 10% or more of the 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 the company	Number of shares held	Percentage of the Company's share capital
KG NextVision Corporation	1,795,000,000	74.79%

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, 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.

### Connected transactions

In accordance with the terms of a sale and purchase agreement dated 11 October 2001, Bellport Capital Limited, a related company of which the sole director and shareholder is also a director of certain subsidiaries of the Group, acquired from the Company the entire share capital of KG NextVision Development Limited, a wholly-owned subsidiary of the Company holding the entire issued share capital of Victory Door Limited and Main Kind Industrial Limited (which in turn holds 90% of the issued share capital of Brilliant Vast Company Limited and the entire issued share capital of Sino Glory Engineering Limited), Fung Cheung Kee Development Limited, Fund Cheung Kee (Zi Jin) Limited, Fung Cheung Kee (China) Limited and Fung Li Engineering Company Limited, which are engaged in the construction and sale of building products, for a cash consideration of HK\$25,000,000. The transaction was completed on 30 October 2001.

In accordance with the terms of a sale and purchase agreement dated 10 January 2002, Gold Legend Holdings Limited, a related company of which the sole director and shareholder is also a director of certain subsidiaries of the Group, acquired from the Company the entire share capital of Fung Cheung Kee International Limited, a wholly-owned subsidiary of the Company, holding 70% of the issued share capital of Cheung Fat Engineering & Transportation Company Limited, which in turn holds the entire issued share capital of Homecare.com.hk Limited and the entire issued share capital of Cheung Kee Fung Cheung Construction Company Limited, which in turn holds the entire issued share capital of Fung Cheung Kee Investment Limited, Fung Cheung Kee Industrial Limited, Lee Lin Construction & Engineering Company Limited and Secure Guarding Services Limited, which are engaged in the construction and sale of building products, for a cash consideration of HK\$25,000,000. The transaction was completed on 28 February 2002.

# REPORT OF THE DIRECTORS (Continued)

## **Connected transactions (continued)**

Further details of the transactions are included in note 34 to the financial statements.

## **Post balance sheet events**

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

## **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 of the SEHK, throughout the accounting period covered by the annual report, except that the 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 in accordance with the bye-laws of the Company.

## **Audit committee**

The Company has an audit committee which was established in accordance with the requirements of the Code, 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**

Arthur Andersen & Co. resigned as auditors of the Company on 9 May 2002 and Ernst & Young were appointed by the directors on 22 May 2002 to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

**Dr. Jeffrey Len-Song KOO**

*Chairman*

Taipei, 27 June 2002