

## REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 30 June 2002.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activity and geographical location of customers for the year ended 30 June 2002 is set out in note 5 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 June 2002 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 27 to 60.

The directors recommend the payment of a final dividend of HK0.45 cent per ordinary share in respect of the year ended 30 June 2002, to shareholders whose names appear on the register of members on 12 November 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in note 11 to the financial statements.

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets, liabilities and minority interests of the Group for the last five financial years, prepared on the bases set out in the note below:

#### RESULTS

	Year ended 30 June				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>305,287</u>	<u>145,763</u>	<u>106,998</u>	<u>92,076</u>	<u>85,516</u>
PROFIT FROM OPERATING ACTIVITIES	<u>96,468</u>	<u>49,492</u>	<u>33,561</u>	<u>27,318</u>	<u>24,458</u>
Finance costs	<u>(225)</u>	<u>(7)</u>	<u>—</u>	<u>—</u>	<u>—</u>
PROFIT BEFORE TAX	<u>96,243</u>	<u>49,485</u>	<u>33,561</u>	<u>27,318</u>	<u>24,458</u>
Tax	<u>(16,500)</u>	<u>(7,871)</u>	<u>(4,064)</u>	<u>(3,215)</u>	<u>(2,957)</u>
PROFIT BEFORE MINORITY INTERESTS	<u>79,743</u>	<u>41,614</u>	<u>29,497</u>	<u>24,103</u>	<u>21,501</u>
Minority interests	<u>(3,575)</u>	<u>(1,926)</u>	<u>(1,537)</u>	<u>(1,268)</u>	<u>(1,094)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>76,168</u>	<u>39,688</u>	<u>27,960</u>	<u>22,835</u>	<u>20,407</u>

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### SUMMARY FINANCIAL INFORMATION *(Continued)*

#### ASSETS, LIABILITIES AND MINORITY INTERESTS

	2002	2001	At 30 June		
	HK\$'000	HK\$'000	2000	1999	1998
			HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS	70,473	59,733	41,365	32,486	25,343
CURRENT ASSETS	201,865	89,282	36,275	27,378	24,798
TOTAL ASSETS	272,338	149,015	77,640	59,864	50,141
CURRENT LIABILITIES	52,292	29,868	23,962	19,183	28,063
NON-CURRENT LIABILITIES	4,618	458	—	—	—
TOTAL LIABILITIES	56,910	30,326	23,962	19,183	28,063
MINORITY INTERESTS	10,151	6,626	4,378	2,841	1,573
NET ASSETS	205,277	112,063	49,300	37,840	20,505

Note: The summaries of the combined results of the Group for the years ended 30 June 1998, 1999 and 2000 and of the assets and liabilities of the Group as at those dates have been extracted from the Company's prospectus dated 18 April 2001, after adjusting for the effect of the retrospective changes in the accounting policy affecting proposed dividends, as detailed in note 3 to the financial statements. The effect of this change in accounting policy is that the proposed final dividend which was previously recognised as a liability at the balance sheet date, but is now disclosed within the capital and reserves section of the balance sheet. Such summaries were prepared from the audited financial statements of the companies now comprising the Group as if the current structure of the Group had been in existence throughout these financial years. The results of the Group for the two years ended 30 June 2002 and the assets and liabilities of the Group as at 30 June 2001 and 2002 are those set out on pages 27 and 29 of the financial statements.

#### FIXED ASSETS

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

#### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons therefor, and details of the share option scheme of the Company are set out in note 22 to the financial statements and disclosed under the heading "Share option scheme" below.

#### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the law of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.



## REPORT OF THE DIRECTORS

### RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 23 to the financial statements.

### DISTRIBUTABLE RESERVES

At 30 June 2002, the Company had distributable reserves of approximately HK\$120,067,000. Under the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately HK\$113,174,000 as at 30 June 2002 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the sales to the Group's five largest customers accounted for approximately 62% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 34%.

Purchases from the Group's five largest suppliers accounted for approximately 58% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 21%.

None of the directors of the Company, 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 interest in the Group's five largest customers or suppliers.

### DIRECTORS

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

#### Executive directors

Mr. Wang Dan Hui

Mr. Wang Hailou

Mr. Wu Chieho Joseph

Mr. Ng Ming Wah

(resigned on 9 January 2002)

#### Independent non-executive directors

Mr. Feng Jianming

Mr. Ma Wing Yun Bryan

Mr. Meng Fanxi

## REPORT OF THE DIRECTORS

### DIRECTORS *(Continued)*

In accordance with the Company's articles of association, Mr. Wu Chieho Joseph and Mr. Meng Fanxi will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors is currently appointed for a term of two years commencing from 28 February 2001.

### BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and senior management of the Group are set out on pages 14 to 17 of the annual report.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 8 April 2001, which will continue thereafter until terminated by either party giving not less than three months' notice in writing.

Save as disclosed above, 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, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

### DIRECTORS' INTERESTS IN SHARES

At 30 June 2002, the interests of the directors in the 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 (the "SDI Ordinance"), were as follows:

Name of director	Notes	Nature of interest	Number of ordinary shares held
Mr. Wang Dan Hui	1	Corporate	144,200,000
Mr. Wu Chieho Joseph	2	Corporate	13,000,000
Mr. Wang Hailou	3	Corporate	10,000,000



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### DIRECTORS' INTERESTS IN SHARES *(Continued)*

Notes:

1. These shares are owned by Noble Resources Investments Limited ("Noble Resources"), a company incorporated in the British Virgin Islands (the "BVI"). The entire share capital of Noble Resources is beneficially owned by Mr. Wang Dan Hui.
2. These shares are owned by Success Faith International Limited ("Success Faith"), a company incorporated in the BVI. The entire share capital of Success Faith is beneficially owned by Mr. Wu Chieho Joseph.
3. These shares are owned by Clever China Management Limited ("Clever China"), a company incorporated in the BVI. The entire share capital of Clever China is beneficially owned by Mr. Wang Hailou.

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

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "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 directors to acquire such rights in any other body corporate.

### SHARE OPTION SCHEME

The Company operates a share option scheme (the "SO 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 SO Scheme are full-time employees and directors of the Company and its subsidiaries. The SO Scheme became effective on 2 May 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 8 April 2001.

The maximum number of unexercised shares options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 10% of the share capital of the Company in issue at any time. At 30 June 2002, the number of shares issuable under share options granted under the SO Scheme was 42,000,000, which represented approximately 4.8% of the shares of the Company in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the SO scheme within any 12-month period, is limited to 2.5% 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 the shareholders' approval 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 after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options or the expiry date of the SO Scheme, if earlier.

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME (Continued)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) 80% of the average closing price of the ordinary shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the offer of the share options; or (ii) the nominal value of the ordinary shares of the Company.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of share option schemes, which came into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interests of the Company to terminate the existing SO Scheme of the Company adopted on 8 April 2001 and to adopt a new SO Scheme. An ordinary resolution approving the termination of the existing SO scheme and adoption of the new SO scheme will be proposed at the Company's extraordinary general meeting to be held at Bowen Room, Level 7, Conrad Hong Kong, 88 Queensway, Hong Kong on Monday, 18 November 2002 immediately after the conclusion of the 2002 Annual General Meeting or at 3:15 p.m. whichever is later.

The share options granted by the Company to the grantee under the existing SO Scheme will not be affected by the proposed new SO Scheme.

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

Category or name of participant	Number of share options					Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK\$	Price of Company's shares ***	
	At 1 July 2001	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2002				At grant date of options HK\$	At exercise date of options HK\$
Other employees										
In aggregate	–	80,000,000	(13,000,000)	(25,000,000) <sup>f</sup>	42,000,000	8 August 2001	20 August 2001 to 19 August 2004	0.2344	0.295	0.49

<sup>#</sup> Share options lapsed upon the termination of employees' employment during the year.

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

<sup>\*\*</sup> The exercise price of the share options is subject to adjustment in the case of rights or bonus issue or other similar changes in the Company's shares capital.

<sup>\*\*\*</sup> 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 five trading days immediately prior to the date of the grant of the share 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 share options within the disclosure category.

Summary details of the Company's SO Scheme are also set out in note 22 to the financial statements.



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### SHARE OPTION SCHEME *(Continued)*

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 share options are exercised, and no charge is recorded in the profit and loss account or the 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. Share options which are cancelled prior to their exercise dates are deleted from the register of outstanding share options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

### SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of holding
Noble Resources	144,200,000 <sup>#</sup>	16.5%

<sup>#</sup> The shareholding is duplicated in the disclosure under the heading "Directors' interests in shares" above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

### DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to date of this report, no director of the Company is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those businesses as of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

### 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.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 29 to the financial statements.

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### CODE OF BEST PRACTICE

To comply with the Code of Best Practice as set out in appendix 14 of the Listing Rules (the “Code of Best Practice”), the Company set up an Audit Committee on 8 April 2001, with written terms of reference, for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Feng Jianming, Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi. The Group’s consolidated financial statements for the year and the Company’s financial statements for the year have been reviewed by the Audit Committee, who are of the opinion that such statements comply with applicable accounting standards and requirements and that adequate disclosures have been made.

In the opinion of the directors, the Company has complied with the Code of Best Practice throughout the year.

### 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

**Wang Dan Hui**

*Chairman and Executive Director*

Hong Kong

18 October 2002