

REPORT OF THE DIRECTORS

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The Directors submit their report together with the audited accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 15(a) to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 37.

The Directors have declared an interim dividend of HK\$0.03 per ordinary share, totalling approximately HK\$14,741,000, which was paid on 28 October 2002.

The Directors recommend the payment of a final dividend of HK\$0.02 per ordinary share, totalling approximately HK\$11,995,000.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 25 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12(a) to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2002 are set out in note 25 to the accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and there are no restrictions against such rights under the laws in the Cayman Islands.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 95 and 96.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

BANK LOANS AND OBLIGATIONS UNDER FINANCE LEASES

The Group's bank loans and obligations under finance leases as at 31 December 2002 are repayable over the following periods:

	Bank loans <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>	Total <i>HK\$'000</i>
Within one year	25,042	2,707	27,749
In the second year	11,951	2,850	14,801
In the third to fifth year	5,200	2,696	7,896
	<u>42,193</u>	<u>8,253</u>	<u>50,446</u>

CONVERTIBLE BONDS

Details of the convertible bonds of the Group and of the Company as at 31 December 2002 are set out in note 22 to the accounts.

REPORT OF THE DIRECTORS *(cont'd)*

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SHARE OPTIONS

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 (the "Old Scheme") was terminated and another share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all share options granted prior to such termination continue to be valid and exercisable in accordance therewith. As at 31 December 2002, there were 5,406,000 and 29,036,000 share options granted which remained outstanding under the Old Scheme and the New Scheme respectively. Details of the New Scheme are as follows:

(a) Purpose

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

(b) Eligible participants

Eligible participants of the New Scheme include the Company's Directors, including the Non-executive Directors and Independent Non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any minority shareholders of the Company's subsidiaries and any other person or entity determined by the Directors as having contributed or may contribute to the development and growth of the Group.

(c) Maximum number of issuable share options

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2002, the number of shares issuable pursuant to the grant of further options under the New Scheme was 88,190, which was governed by the latest 10% general limit refreshed and approved by the shareholders in a general meeting.

(d) Maximum entitlement of each eligible participant

The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant under the New Scheme in any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

SHARE OPTIONS *(cont'd)*

(d) Maximum entitlement of each eligible participant *(cont'd)*

Share options granted to a Director, Chief Executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the Independent Non-executive Directors of the Company. 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 closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting.

(e) Exercisable period

The exercisable period of the share options granted is determined by the Directors, and commences after a certain vesting period, if any, and ends on a date which is not later than 10 years from the date of the offer. The share options which are granted and remain unexercised immediately prior to the end of the expiry date of the New Scheme shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the New Scheme.

(f) Payment on acceptance of option

The offer of a grant of share options shall be deemed to be accepted when the acceptance letter is duly signed by the grantee and the nominal consideration for the grant of HK\$1 is received by the Company within 28 days from the date of the offer.

(g) Basis of determining the exercise price

The exercise price of the share option is determined by the Directors, but not less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

(h) Remaining life of the scheme

The New Scheme became effective on 20 December 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

REPORT OF THE DIRECTORS *(cont'd)*

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SHARE OPTIONS *(cont'd)*

Details of the share options outstanding as at 31 December 2002 which have been granted under the Old Scheme are as follows:

Participant	Date of grant*	Exercise price HK\$**	Number of share options				Company's share price***		
			At 1 January 2002	Granted during the year	Bonus issue during the year	Exercised during the year	At 31 December 2002	At date of grant HK\$**	At date of exercise HK\$**
Executive Directors									
Mr. Lau Jin Wei, Jim	4 January 2001	0.67	3,750,000	—	—	(3,750,000)	—	0.82	1.50
Mr. Choi Woon Man	4 January 2001	0.67	1,250,000	—	78,200	(859,000)	469,200	0.82	1.10
Mr. Li Kwong Mo, Peter	4 January 2001	0.67	4,500,000	—	800,000	(500,000)	4,800,000	0.82	1.38
Ms. Wong Wai Kwan, Connie	4 January 2001	0.67	833,375	—	—	(833,375)	—	0.82	1.10
Mr. Hui Man, Herman	4 January 2001	0.67	3,375,000	—	—	(3,375,000)	—	0.82	1.40
			13,708,375	—	878,200	(9,317,375)	5,269,200		
Non-executive Director									
Professor Ouyang Fan	5 January 2001	0.68	100,000	—	—	(100,000)	—	0.91	1.79
Independent Non-executive Directors									
Mr. Ou Ying Ji	5 January 2001	0.68	100,000	—	—	(100,000)	—	0.91	1.79
Mr. Yip Wai Leung, Jerry	4 January 2001	0.67	100,000	—	20,000	(120,000)	—	0.82	1.32
			200,000	—	20,000	(220,000)	—		
Other employees									
In aggregate	4 January 2001	0.67	388,000	—	22,800	(274,000)	136,800	0.82	1.49
	16 November 2001	1.08	4,700,000	—	—	(4,700,000)	—	1.34	1.18
			5,088,000	—	22,800	(4,974,000)	136,800		
Share options granted under the Old Scheme			19,096,375	—	921,000	(14,611,375)	5,406,000		

REPORT OF THE DIRECTORS (cont'd)

SHARE OPTIONS (cont'd)

Details of the share options outstanding as at 31 December 2002 which have been granted under the New Scheme are as follows:

Participant	Date of grant*	Exercise price HK\$**	Number of share options				Company's share price***		
			At 1 January 2002	Granted during the year	Bonus issue during the year	Exercised during the year	At 31 December 2002	At date of grant HK\$**	At date of exercise HK\$**
Suppliers of goods or services, customers and others									
In aggregate	24 December 2001	1.17	30,760,000	—	—	(30,760,000)	—	1.11	1.29
	22 March 2002	1.33	—	34,000,000	200,000	(33,000,000)	1,200,000	1.35	1.57
	29 July 2002	1.50	—	39,680,000	5,936,000	(20,000,000)	25,616,000	1.44	1.36
			30,760,000	73,680,000	6,136,000	(83,760,000)	26,816,000		
Other employees									
In aggregate	22 March 2002	1.33	—	1,400,000	200,000	(400,000)	1,200,000	1.35	1.71
	29 July 2002	1.50	—	1,000,000	170,000	(150,000)	1,020,000	1.44	1.61
			—	2,400,000	370,000	(550,000)	2,220,000		
Share options granted under the New Scheme			30,760,000	76,080,000	6,506,000	(84,310,000)	29,036,000		
Total share options granted			49,856,375	76,080,000	7,427,000	(98,921,375)	34,442,000		

No share options have lapsed during the year.

Note:

* The exercisable period of the above share options is 3 years from the date of the grant as determined by the Directors.

** The exercise price has been adjusted following the bonus issue as described in note 23(d) to the accounts.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's 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 closing price of the shares immediately before the dates on which share options were exercised.

REPORT OF THE DIRECTORS *(cont'd)*

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SHARE OPTIONS *(cont'd)*

Summary of details of the Company's share option schemes are also set out in note 24(a) to the accounts.

The financial impact of options granted is not recorded in the Company's and Group's accounts until such time as the options are exercised. Upon the exercise of the 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 lapsed, if any, prior to their exercise date are deleted from the outstanding options.

The Directors do not consider it appropriate to state the value of the options granted during the year as a number of variables which are crucial for the calculation of the options value have not been determined. The Directors believe that any calculation of the value of the options based on a great number of speculative assumptions would not be meaningful and would be misleading.

Subsequent to the balance sheet date, the Company granted 59,974,000 share options to subscribe for the shares of the Company at a subscription price of HK\$1.23 each at any time during the period from 8 January 2003 to 7 January 2006. Included in the share options granted are 29,932,000 to the employees of the Group and 30,042,000 to the suppliers and customers of the Group.

An aggregate of 57,145,900 ordinary shares was issued subsequent to the balance sheet date upon the exercise of the outstanding share options at an average exercise price of HK\$1.29 each. Total cash proceeds received thereon, before any related expenses, was approximately HK\$73,970,000.

WARRANTS

Details of the movements in warrants of the Company are set out in note 24(b) to the accounts.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. Lau Jin Wei, Jim

Mr. Choi Woon Man

Mr. Li Kwong Mo, Peter

Ms. Wong Wai Kwan, Connie

Mr. Hui Man, Herman

(resigned on 31 January 2002)

Non-executive Director

Professor Ouyang Fan

Independent Non-executive Directors

Mr. Ou Ying Ji

Mr. Yip Wai Leung, Jerry

In accordance with the Company's Articles of Association, Mr. Li Kwong Mo, Peter and Ms. Wong Wai Kwan, Connie will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Directors of the Company, including the Non-executive Director, are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's Articles of Association. The Independent Non-executive Directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the Company's Articles of Association.

REPORT OF THE DIRECTORS *(cont'd)*

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out from page 12 to page 16.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of two years commencing from 1 January 2001 (the "Previous Contracts"). Upon the expiry of the Previous Contracts, each of the existing Executive Directors has renewed the service contract with the Company for a term of one year commencing from 1 January 2003 (the "New Contracts"), except for Mr. Hui Man, Herman, whose service contract was terminated upon his resignation as a Director on 31 January 2002. The New Contracts continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of Mr. Choi Woon Man's and Mr. Yip Wai Leung, Jerry's interests in contracts of significance in relation to the Group's business are set out in notes 30(a) and 30(b) respectively to the accounts.

Apart from the above, no other contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31 December 2002, which constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2002, the interests of the Directors and Chief Executives in the shares, share options and warrants of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.10 each of the Company

Name of Director	Nature of interests	Number of ordinary shares
Mr. Lau Jin Wei, Jim	Personal interests	5,400,000
	Family interests (<i>note 1</i>)	80,712,000
Mr. Choi Woon Man	Personal interests	469,200
	Corporate interests (<i>note 2</i>)	73,368,000
Mr. Li Kwong Mo, Peter	Personal interests	240,000
Ms. Wong Wai Kwan, Connie	Personal interests	760,050
Mr. Yip Wai Leung, Jerry	Personal interests	120,000

(b) Share options of the Company

Details of the interests of the Directors in share options granted under the share option schemes of the Company have been disclosed under the heading "Share options" above.

(c) Warrants of the Company

Name of Director	Nature of interests	Number of warrants
Mr. Lau Jin Wei, Jim	Personal interests	182,926
	Family interests (<i>note 1</i>)	16,097,560
Mr. Choi Woon Man	Corporate interests (<i>note 2</i>)	8,048,780

REPORT OF THE DIRECTORS *(cont'd)*

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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(cont'd)*

(c) Warrants of the Company *(cont'd)*

The above number of warrants granted pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 18 October 2001 have been adjusted following the bonus issue as described in note 23(d) to the accounts. Each of the warrant entitles the holder thereof to subscribe for one ordinary share at a current adjusted subscription price of HK\$2.05 per share, subject to dilutive adjustment, at any time during the period from 22 October 2002 to 30 December 2003 (both dates inclusive). During the year, there were neither any new warrants granted nor outstanding warrants being exercised by any of the warrant holders including the above Directors.

Note:

- 1 There are 80,712,000 ordinary shares and 16,097,560 warrants to subscribe for ordinary shares of the Company as shown above held by Motivated Workforce Consultants Limited ("MWC"), a company incorporated in the British Virgin Islands. The entire share capital of MWC is owned by Mr. Lau Ru Dong, the father of Mr. Lau Jin Wei, Jim.
- 2 There are 73,368,000 ordinary shares and 8,048,780 warrants to subscribe for ordinary shares of the Company as shown above held by Inviting Finance Limited ("IFL"), a company incorporated in the British Virgin Islands. The entire share capital of IFL is owned by Mr. Choi Woon Man.

Except as disclosed above, as at 31 December 2002, the Company did not grant any right to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance) to the Directors or Chief Executives of the Company or to their spouses or children under 18 years of age.

Apart from the above, at no time during the year was the Company or its 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.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that as at 31 December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares	Percentage of the Company's share capital
MWC	80,712,000	13.46%
IFL	73,368,000	12.23%

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 existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

- | | |
|-----------------------------------|-----|
| – the largest supplier | 16% |
| – five largest suppliers combined | 53% |

Sales

- | | |
|-----------------------------------|-----|
| – the largest customer | 10% |
| – five largest customers combined | 25% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except that the Non-executive Director and the Independent Non-executive Directors are not appointed for specific terms, 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 Articles of Association of the Company. In the opinion of the Directors, this meets the same objective as the Code of Best Practice.

REPORT OF THE DIRECTORS *(cont'd)*

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AUDIT COMMITTEE

The Company's Audit Committee comprises two Independent Non-executive Directors, namely Mr. Ou Ying Ji and Mr. Yip Wai Leung, Jerry.

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The Audit Committee met twice during the year of 2002 in conjunction with the auditors to review the internal controls, interim results and final accounts of the Group prior to recommending them to the Board for approval.

PENSION SCHEME ARRANGEMENTS

On 1 December, 2000, the Group set up a Mandatory Provident Fund Scheme (the "MPF Scheme") in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The assets of the MPF Scheme are held separately from those of the Group and under control of an independent trustee.

Both the Group and its employees located in Hong Kong are required to contribute 5% of the employees' monthly salaries. The mandatory contributions required to be made by the Group and an employee are capped at HK\$1,000 per month. Members are entitled to 100% of the employers' mandatory contributions as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or in accordance with the rules of the MPF Scheme.

Pursuant to the relevant regulations of the government of the People's Republic of China (the "PRC"), a subsidiary of the Company operates a local municipal government retirement benefits scheme (the "PRC Scheme") for its employees located in the PRC. The subsidiary is required to make contributions to the PRC Scheme at rates specified by the local practice and regulations and the local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary. The only obligation of the Group is to make the ongoing required contributions to the PRC Scheme.

The Group's retirement benefit costs are charged to the consolidated profit and loss account when incurred and the aggregate contributions payable by the Group was approximately HK\$388,000 (2001: HK\$251,000). There were no provisions under the Group's retirement schemes whereby forfeited contributions may be used to reduce future contributions.

AUDITORS

On 24 March 2003, the Board of Directors accepted the resignation of Ernst & Young, who acted as auditors of the Company for the past three years and Messrs. PricewaterhouseCoopers was then appointed as auditors of the Company to fill in the causal vacancy. A resolution for the re-appointment of Messrs. PricewaterhouseCoopers as auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Lau Jin Wei, Jim

Chairman

Hong Kong, 25 April 2003