

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

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries and associates are principally engaged in property investment, investment holding, provision of internet and internet related services, investment in trading securities and the provision of brokerage and financial services. Details of the principal activities of the Company's subsidiaries and associates are set out in note 20 and 21 to the financial statements respectively.

During the year, the Company no longer has control over Cupac Technology Limited ("Cupac") which is principally engaged in provision of internet and internet related services and investment in trading securities. Accordingly, Cupac was reclassified as an associate. In August 2001, the Group disposed of its entire interest in Cupac.

## RESULTS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 20.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 32 to the financial statements.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 77 and page 78.

## SHARE OPTION SCHEME

Pursuant to the Share Option Scheme which became effective on 15 December 1995 and which will expire in ten years after that date, the directors of the Company may, at their discretion, grant options to any director or employee of the Company, or any of its subsidiaries, to subscribe for shares in the Company at a price neither less than the par value of the shares nor at a discount of more than 20% of the average closing price of the shares on The Stock Exchange of Hong Kong Limited on the five dealing days immediately preceding the date of the grant of the options. The maximum number of share options granted should not be more than 10% of the issued share capital of the Company from time to time. A share option may be exercised at any time no later than ten years from the date of grant of the share option.

In the absence of a readily available market value for the share options, the directors are unable to arrive at an accurate assessment of the value of the share options granted in the year. The share options granted are not recognised in the financial statements until they are exercised.

## SHARE OPTION SCHEME (Continued)

At 31 December 2001, a director and employees of the Company have the following interests in options to subscribe for shares of the Company granted at nominal consideration under the share option scheme of the Company.

	Number of options				Date of granted	Exercise price per share HK\$	Exercise period
	Outstanding at 1 January 2001	Granted during the year	Exercised during the year	Outstanding at 31 December 2001			
<b>Director</b>							
Chuang Yueheng, Henry	6,000,000	—	—	6,000,000	8 October 1997	1.693	9 October 1997 to 8 October 2007
<b>Employees</b>							
	2,400,000	—	—	2,400,000	25 August 2000	0.02048	25 August 2000 to 24 August 2010
	—	230,000,000	(230,000,000)	—	22 February 2001	0.01104	22 February 2001 to 21 February 2011
	—	209,000,000	(209,000,000)	—	26 February 2001	0.01104	26 February 2001 to 25 February 2011
	—	296,000,000	(296,000,000)	—	6 June 2001	0.01	6 June 2001 to 5 June 2011
	—	428,000,000	(428,000,000)	—	23 August 2001	0.01	23 August 2001 to 22 August 2011
Sub-total	2,400,000	1,163,000,000	(1,163,000,000)	2,400,000			
Total	8,400,000	1,163,000,000	(1,163,000,000)	8,400,000			

## INVESTMENT PROPERTIES

During the year, the Group, through acquisition of subsidiaries, acquired certain investment properties with the then carrying value of HK\$14,963,000. In addition, the Group disposed of certain investment properties with the then carrying value of HK\$21,000,000. This resulted in loss on disposals of HK\$2,520,000.

The Group's investment properties were revalued at 31 December 2001 by a firm of independent professional property valuers on an open market value existing use basis. A net deficit of HK\$25,343,000 arising from the revaluation has been charged to the income statement.

Details of the movements in investment properties of the Group are set out in note 17 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group, through acquisition of subsidiaries, acquired certain properties with the then carrying value of HK\$15,659,000.

During the year, impairment losses of certain properties amounting to HK\$115,000,000 has been recognised in the income statement.

Details of the movements in property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

Particulars of the properties of the Group as at 31 December 2001 are set out on pages 79 to 80 of the annual report.

## BORROWINGS

Details of the obligations under finance leases and bank and other borrowings of the Group and the Company are set out in notes 29 and 30 to the financial statements respectively.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 31 to the financial statements.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

## CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Save as disclosed in note 28 to the financial statements and the section headed "Share Option Scheme" in this report, the Company or any of its subsidiaries has no outstanding convertible securities, options or similar rights as at 31 December 2001 and there was no exercise of any convertible securities, options or similar rights during the year.

## DIRECTORS

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

### Executive directors:

Chuang Yueheng, Henry  
Chung, Wilson  
Lo Kan Sun  
Wong Ying Seung, Asiong  
Wong Siu Bun

### Independent non-executive directors:

Lam Ping Cheung  
Sun Lup Chung

## DIRECTORS (Continued)

In accordance with Clause 97 of the Company's Bye-laws, Messrs. Lo Kan Sun and Lam Ping Cheung retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Company within one year without payment of compensation other than statutory compensation.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

## DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

The interests of the directors and their associates in the share capital of the Company as at 31 December 2001 as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") and share options are as follows:

### (i) Shares

Directors	Number of ordinary shares held	
	Personal interests	Corporate interests
Chuang Yueheng, Henry ( <i>Note</i> )	—	3,859,202,364
Lo Kan Sun	200	—

*Note:*

These shares were held by Radford Developments Limited which is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, the Chairman of the Company, currently named as the beneficiary.

Apart from the above, none of the directors or their associates had any personal, family, corporate or other interests in the equity of the Company or its subsidiaries as at 31 December 2001.

**DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS** (Continued)**(ii) Share options**

Details of the outstanding share options as at 31 December 2001 to subscribe for shares in the Company granted to the directors and their associates are as follows:

Name of director	Number of shares options outstanding	Exercise price per share HK\$	Exercise period
Chuang Yueheng, Henry	6,000,000	1.693	9 October 1997 to 8 October 2007

Save as disclosed above, as at 31 December 2001, none of the directors or their associates had any interests in the shares and share options of the Company or any of its subsidiaries or associated corporations as defined in the SDI Ordinance. In addition, none of the directors, or their spouses or children under the age of 18 had any right to subscribe for the shares of the Company or had exercised any such right during the year.

**DIRECTORS' INTERESTS IN CONTRACTS**

Details of directors' interests in contracts are set out in note 41(b) to the financial statements.

Save as disclosed above, no other contracts of significance to which the Company or any of 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**

The following connected transactions occurred during the year ended 31 December 2001.

1. The Group has certain transactions with a non wholly-owned subsidiary, Cupac, which was reclassified as an associate during the year and disposed of in August 2001. Up to the date of disposal of Cupac, the Group has the following transactions with Cupac.
  - (a) The Company has executed a guarantee to the extent of HK\$53,000,000 in favour of a third party for the due performance of Cupac under a subscription agreement dated 21 October 2000 in connection with a convertible note of HK\$53,000,000 issued by Cupac as detailed in note 28 to the financial statements. In this connection, the Company has received a guarantee fee of HK\$1,284,000.
  - (b) The Company has also executed a guarantee for the due observance and performance of Cupac under a shareholders' agreement dated 28 December 2000 in respect of a subsidiary of Cupac. In this connection, the Company has received guarantee fee of HK\$966,000 from Cupac.
  - (c) Cupac has granted unsecured short term loans to Chung Nam Finance Limited ("Chung Nam Finance"), a subsidiary of a non wholly-owned subsidiary, Hennabun Management Inc. ("HMI"). The loans carried interest at prime rate plus 2% per annum. At the date of disposal of Cupac, the outstanding loans amounted to HK\$55,000,000. Interest paid and payable to Cupac amounted to HK\$3,814,000.

## CONNECTED TRANSACTIONS *(Continued)*

2. The Company has executed guarantees for credit facilities of HK\$63,000,000 and HK\$50,000,000 granted to Chung Nam Securities Limited ("Chung Nam Securities") and Chung Nam Finance respectively. In this connection, a monthly guarantee fee of 0.125% on the maximum monthly usage of a credit facility to the extent of HK\$30,000,000 will be payable by Chung Nam Securities to the Company. Guarantee fee receivable by the Company from Chung Nam Securities amounted to HK\$110,000 in respect of the year. At the balance sheet date, credit facilities of HK\$42,257,000 and HK\$50,000,000 were utilised by Chung Nam Securities and Chung Nam Finance respectively.
3. In 9 July 2001, the Group subscribed for 25,000,000 shares of US\$0.1 each of the share capital of HMI at a total consideration of HK\$75,000,000.
4. The Group has granted unsecured short term loans and secured advances to a director of certain non wholly-owned subsidiaries who has resigned during the year. The loans carried interest at 12% to 15% per annum or at prime rate plus 5% per annum. The advances carried interest at prime rate plus 3% to 24% per annum. At the date of resignation of the director, the outstanding loans and advances amounted to approximately HK\$46.9 million and HK\$22.6 million respectively. Interest income received and receivable from the director up to that date amounted to HK\$702,000.
5. The Group has obtained a short term loan of HK\$80,000,000 from Hansom Finance Limited, a subsidiary of a minority shareholder of HMI. The loan was unsecured and carried interest at 9% per annum. The interest paid to Hansom Finance Limited amounted to HK\$2,037,000 in respect of the year.
6. A wholly-owned subsidiary, China United Finance Limited, has granted unsecured short term loans to HMI and Chung Nam Finance. The loans carried interest at 11% to 15% per annum or at prime rate plus 2% to 2.5% per annum. At the balance sheet date, the outstanding loans amounted to HK\$311,000,000. The interest received and receivable from HMI and Chung Nam Finance in respect of the year amounted to HK\$19,134,000.
7. The non-wholly owned subsidiaries, Chung Nam Securities and CU Corporate Finance Limited have acted as the Company's placing agents and financial advisor for placement of new shares and issue of convertible notes of the Company. In this connection, the Company has paid commission totalling HK\$3,118,000 in respect of the year to Chung Nam Securities and CU Corporate Finance Limited.
8. Pursuant to a subscription agreement dated 27 March 2001, the Company was required to make payment of HK\$50,000,000 to HMI to fulfil its warranties for HMI's financial performance in respect of the year ended 31 December 2001.
9. Chung Nam Securities has granted securities margin loans to Radford Developments Limited, a substantial shareholder of the Company, and certain Company's directors. At the balance sheet date, the loans amounted to HK\$26,811,000 and HK\$2,077,000 respectively which carried interest at prime rate plus 3% per annum.

The directors confirm that the transactions have been entered into by the Group in the ordinary course of its business and are in accordance with the terms of the agreements governing such transactions.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, as far as the directors were aware, the interests of the substantial shareholders in the shares of the Company are as follows:

Name	Number of ordinary shares of HK\$0.01 each held in the Company	Percentage of issued share capital of the Company
Radford Developments Limited	3,859,202,364 <i>(Note)</i>	13.82%

*Note:*

These shares were held by Radford Developments Limited, which is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, the Chairman of the Company, currently named as the beneficiary.

Apart from the above, as at 31 December 2001, the Company had not been notified of any interest amounting to 10% or more of the issued share capital of the Company.

## 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.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

## CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## POST BALANCE SHEET EVENT

Significant post balance sheet event is set out in note 42 to the financial statements.

## DONATIONS

During the year, the Group has made charitable and other donations amounting to HK\$208,000.

## AUDITORS

Except for the financial period commencing from 1 April 1996 to 31 March 2000, in which Messrs. Deloitte Touche Tohmatsu acted as auditors of the Company, Messrs. BDO International have acted as auditors of the Company since the financial period commencing 1 April 2000.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. BDO International as auditors of the Company.

On behalf of the Board  
**Chuang Yueheng, Henry**  
*Chairman*

Hong Kong, 11 April 2002