

Report of the Directors

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

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 17 to the financial statements. Other than the disposal and discontinuance of the Group's woollen and worsted products business as set out in notes 4, 5, 6 and 32(d) to the financial statements and the acquisition of the information technology business as further detailed in notes 17 and 32(c) to the financial statements, 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 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss 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 20 to 75.

The directors do not recommend the payment of any dividends in respect of the year.

FIVE YEAR FINANCIAL SUMMARY

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 76. 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 Company and the Group during the year are set out in note 14 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 30 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had no reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year, and purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

DIRECTORS

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

Executive directors:

Mr. Xiong Da Xin	<i>(appointed on 19 April 2001)</i>
Mr. Bai Jin Rong	
Dr. Mao Xiang Dong, Peter	<i>(appointed on 19 April 2001)</i>
Mr. E Meng	<i>(appointed on 19 April 2001)</i>
Mr. Ng Kong Fat, Brian	
Mr. Ng Kwong Fung	<i>(resigned on 19 April 2001)</i>

Independent non-executive directors:

Mr. Wu Shi Xiong	<i>(resigned on 4 February 2002)</i>
Mr. Cao Guixing	<i>(appointed on 15 June 2001)</i>
Mr. Feng Ching Yeng, Frank	

In accordance with the Company's articles of association, Messrs. Cao Guixing and Feng Ching Yeng, Frank will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 and 9 of the annual report.

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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

Save as disclosed in note 35 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies and fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors in the share capital of the Company's subsidiaries, 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:

- (a) Sunbird Holdings Limited ("Sunbird") beneficially owns 2,400 ordinary shares of HK\$1 each in the share capital of H.K. Forewell Investments Limited, representing 24% of its issued share capital;
- (b) Sunbird beneficially owns 2,400 ordinary shares of HK\$1 each in the share capital of Hong Kong Fortune International Limited, representing 24% of its issued share capital; and
- (c) Sunbird beneficially owns 6,000 ordinary shares of S\$1 each in the share capital of Ah Yat Abalone Forum Restaurant Holdings Pte Ltd, representing 24% of its issued share capital.

Mr. Ng Kong Fat, Brian, a director of the Company, has beneficial equity interests in Sunbird.

In addition to the above, a director has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

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 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, holding companies and fellow 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 "Scheme") to give executives and key employees of the Company and its subsidiaries an interest in preserving and maximising shareholder value in the longer term, to enable the Company and the relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for future performance. Eligible participants of the Scheme include the executive directors and employees of the Company or any of its subsidiaries. The Scheme became effective on 18 June 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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 December 2001, the number of shares issuable under share options granted under the Scheme was 15,200,000, which represented approximately 3.4% of the Company's shares then in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

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 granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date on which the offer of the share options is accepted or on the expiry date of the Scheme, whichever is earlier.

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 of the closing prices of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the Company's shares.

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SHARE OPTION SCHEME (continued)

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

	Number of share options		
	At 1 January 2001	Granted during the year	At 31 December 2001
Directors			
Mr. Xiong Da Xin	—	2,800,000	2,800,000
Mr. Bai Jin Rong	—	2,600,000	2,600,000
Dr. Mao Xiang Dong, Peter	—	1,600,000	1,600,000
Mr. E Meng	—	1,600,000	1,600,000
Mr. Ng Kong Fat, Brian	—	2,300,000	2,300,000
	—	10,900,000	10,900,000
Other employees			
	—	4,300,000	4,300,000
	—	15,200,000	15,200,000

These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per share. The closing price of the Company's shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options was HK\$1.47. The options can be exercised in 2 or 3 equal portions. The first portion is exercisable at any time commencing on 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006.

Summary details of the Company's share option scheme are also set out in note 30 to the financial statements.

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

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful, and would be misleading.

In addition to the above, at 31 December 2001, the interests of the directors of the Company in options to subscribe for shares of Beijing Enterprises Holdings Limited ("BEHL"), the Company's holding company, under the share options scheme of BEHL were as follows:

Name of director	Number of options held	
	Note (a)	Note (b)
Mr. Bai Jin Rong	240,000	2,160,000
Mr. E Meng	50,000	450,000

Notes:

- (a) *These options were granted on 3 March 1998 at an exercise price per share of HK\$17.03. The options can be exercised at any time in the next 10 years commencing on 1 September 1998. No such options were exercised during the year.*
- (b) *These options were granted on 23 June 1998 at an exercise price per share of HK\$17.03. The options can be exercised in 9 equal portions. The first portion is exercisable at any time commencing on 1 January 1999 and one additional portion becomes exercisable on 1 January in each of the following years. All of the options (to the extent not exercised) will become exercisable on 1 January 2007 and, if not otherwise exercised, will lapse on 1 January 2009. No part of these share options was exercised during the year.*

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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	Number of shares held	Percentage of the Company's share capital
Idata Finance Trading Limited ("IFTL")	240,675,000	53.93%
BEHL	240,675,000	53.93%
Beijing Holdings Limited ("BHL")	240,675,000	53.93%
Illumination Holdings Limited	58,618,368	13.14%

IFTL is a direct wholly-owned subsidiary of BEHL. BEHL is held indirectly as to 62.9% by BHL. Accordingly, BEHL and BHL are deemed to be interested in the shares owned by IFTL.

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.

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.

CONNECTED TRANSACTIONS

- (a) On 29 March 2001, the Company disposed of its entire 70% interest in Sino Textile Enterprises Limited ("Sino Textile"), the shareholder's loan of approximately HK\$1.5 million which is due from Sino Textile to the Company and all of the woollen and worsted products owned by the Company to Guang Ming Group (Hong Kong) Limited ("GMG"), a wholly-owned subsidiary of the then controlling shareholder of the Company, for an aggregate cash consideration of approximately HK\$6 million.
- (b) On 29 March 2001, the Company disposed of its entire 50% interest in Beijing Jin Yang Worsted Co., Ltd. to GMG for a cash consideration of approximately HK\$19 million.

CONNECTED TRANSACTIONS *(continued)*

- (c) On 31 October 2001, the Company acquired the entire issued share capital of E-Tron Limited (“E-Tron”) and Prime Technology Group Limited (“PTG”) from five individuals and BEHL, respectively, at an aggregate consideration of HK\$190 million, satisfied as to (i) HK\$47.5 million in cash; and (ii) HK\$142.5 million by way of the allotment of 142,500,000 new shares of the Company. The sole assets owned by E-Tron and PTG are their respective 49% and 51% equity interests in Cyber Vantage Group Limited (“Cyber Vantage”).
- (d) On 1 August 2001, Beijing Enterprises Teletron Information Technology Co. Ltd. (“BETIT”), a wholly-owned subsidiary of Cyber Vantage, and Beijing Teletron Telecom Engineering Co. Ltd. (“BTTE”), a 91% owned subsidiary of BEHL, entered into a technical support agreement, a management consultation agreement and a market development consultation agreement (collectively as the “Technical Services Agreements”), under which BTTE will pay a monthly service fee to BETIT calculated at 9%, 8% and 8%, respectively, of BTTE’s total turnover for the previous month in return for services provided by BETIT from 1 August 2001 to 31 July 2021.

The Stock Exchange has granted a waiver for a period of three financial years ending 31 December 2003 from the disclosure/shareholders’ approval requirement in connection with the Technical Services Agreements. During the year ended 31 December 2001, total service fees payable by BTTE to BETIT amounted to HK\$14,151,000. The independent non-executive directors of the Company have reviewed and confirmed that such transactions have been entered into: (i) in the ordinary and usual course of business of the Group; (ii) on terms no less favourable to the Group than terms available from independent third parties; (iii) in accordance with the relevant agreements governing the transactions; and (iv) on terms that are fair and reasonable and in the interests of the Company’s shareholders as a whole.

Further details of the transactions are included 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 Rules Governing the Listing of Securities on the Stock Exchange 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 Company’s articles of association, and the Company has not established an audit committee.

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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

XIONG DA XIN

Chairman

Hong Kong

8 April 2002