



## REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st December 2001.

### **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in notes 13, 14 and 15 to the accounts.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and geographical locations is set out in note 2 to the accounts.

### **RESULTS**

The results for the year are set out in the consolidated profit and loss account on page 24.

### **DIVIDEND**

The Board of Directors recommends the payment of a final dividend of HK\$0.015 per ordinary share, totalling HK\$16,969,856 (2000: HK\$16,708,495).

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

### **FIXED ASSETS**

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

### **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 21 to the accounts.

# REPORT OF THE DIRECTORS



## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2001, calculated pursuant to section 79B of the Hong Kong Companies Ordinance, amounted to HK\$76,449,111 (2000: HK\$93,925,702, as restated).

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration paid
		Highest HK\$	Lowest HK\$	
January 2001	496,000	0.445	0.435	220,901
February 2001	584,000	0.400	0.395	233,508
September 2001	6,280,000	0.360	0.315	2,183,397
	7,360,000			2,637,806

The above shares were cancelled upon repurchases and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount of HK\$1,472,000 equivalent to the nominal value of the cancelled shares was transferred from retained profits to the capital redemption reserve. The remaining portion of premium and brokerage expenses payable on the repurchases was charged against the retained profits.

Apart from the repurchases of shares as disclosed above, the Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on the Stock Exchange during the year ended 31st December 2001.



## REPORT OF THE DIRECTORS

### SHARE OPTION

On 12th May 1994, a share option scheme (the "Scheme") was approved by the shareholders of the Company. The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff. Under the terms of the Scheme, the directors have the discretion to grant to employees and directors of any member of the Group to subscribe for shares in the Company.

The maximum number of shares subject to the Scheme is not exceeding 10 percent of the issued share capital of the Company from time to time (excluding shares issued upon exercise of options granted pursuant to the Scheme) and the maximum number of shares in respect of which options may be granted to any one participant together with any shares which would be issued in respect of options which have been exercised by him and any shares which would be issued upon exercise of outstanding options granted to him shall not exceed 25 percent of the maximum number of shares issued and issuable under the Scheme at the time. The total number of shares available for issue under the Scheme as at the date of the annual report is 13,077,804, representing approximately 1.17% of the issued share capital of the Company as of that date.

The consideration for the grant of an option is HK\$1.00. The Scheme participant is entitled to subscribe for shares during such period as may be determined by the directors (which shall be less than 10 years from the date of the grant of the relevant option and commences six months after the acceptance of the grant) at the price to be determined by the board of directors but not less than the higher of the nominal value of the shares and 80 percent of the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted.

The Scheme will remain in force for a period of 10 years from 12th May 1994, the date of adoption of the Scheme, after which no options may be granted.

## REPORT OF THE DIRECTORS



### SHARE OPTION (Cont'd)

Details of share options granted under the Scheme and remain outstanding as at 31st December 2001 are as follows:—

	Options held at 1 January 2001	Options exercised during year	Options lapsed during year	Options held at 31 December 2001	Exercise price HK\$	Date of grant	Exercise period
Directors:							
Lao Yuan Yi	7,338,100	—	—	7,338,100	0.342	26/09/1995	26/03/1996-07/10/2005
	5,503,900	—	—	5,503,900	0.318	11/07/1996	11/01/1997-15/07/2006
	10,000,000	—	—	10,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
Xin Shulin, Steve	2,534,980	—	—	2,534,980	0.453	26/01/1995	26/07/1995-09/02/2005
	838,640	—	—	838,640	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	—	—	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	4,464,000	—	—	4,464,000	0.283	08/07/1998	08/01/1999-15/07/2008
Yeung Wai Kin	2,401,560	—	—	2,401,560	0.453	26/01/1995	26/07/1995-09/02/2005
	1,494,304	—	—	1,494,304	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	—	—	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	7,500,000	520,000 <sup>(1)</sup>	—	6,980,000	0.283	08/07/1998	08/01/1999-15/07/2008
Hu Yi Ming	1,000,000	—	—	1,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
	2,300,000	—	—	2,300,000	0.283	08/07/1998	08/01/1999-15/07/2008
Employees	3,119,640	—	2,852,800	266,840	0.453	26/01/1995	26/07/1995-09/02/2005
	4,101,712	—	—	4,101,712	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	—	1,450,000	1,050,000	0.816	01/11/1997	01/05/1998-12/11/2007
	2,812,000	1,000,000 <sup>(2)</sup>	—	1,812,000	0.283	08/07/1998	08/01/1999-15/07/2008
	200,000	—	200,000	—	0.493	24/12/1999	24/12/1999-06/12/2009
	63,108,836	1,520,000	4,502,800	57,086,036			

#### Notes:

- (1) Exercise date was 4th June 2001. At the date before the options were exercised, the market value per share was HK\$0.73.
- (2) Exercise date was 5th June 2001. At the date before the options were exercised, the market value per share was HK\$0.77.
- (3) The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of share options granted to participants. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share option based on various speculative assumptions would be meaningless and could be misleading to the shareholders.



## REPORT OF THE DIRECTORS

### DIRECTORS

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

Mr. LAO Yuan Yi

Mr. XIN Shulin, Steve

Mr. YEUNG Wai Kin

Mr. HU Yi Ming

Mr. XU Wei Ming

Mr. JIANG Guo Fang

Mr. LU Wen Qing

\* Prof. WOO Chia Wei

\* Mr. KWOK Lam Kwong, Larry

\* *Independent non-executive directors*

Prof. WOO Chia Wei, Messrs. JIANG Guo Fang and LU Wen Qing retire in accordance with the Company's articles of association, and being eligible, offer themselves for re-election.

### DIRECTORS' SERVICE CONTRACTS

Messrs. YEUNG Wai Kin, XIN Shulin, Steve and HU Yi Ming have service contracts with the Company with no fixed expiry period and are not determinable within one year without payment of compensation.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the directors of the Company and senior management of the Group are set out as follows (with age in brackets):—

Mr. **Lao Yuan-Yi** (56). Chairman & Managing Director. Joined the Company in 1993. Currently Chairman of China Assets (Holdings) Ltd, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Previously senior policy researcher at China's National Research Centre for Science & Technology and Social Development, senior staff officer with the PRC State Science & Technology Commission & the PRC Railway Ministry. Mr. Lao graduated from Shanghai Fudan University and obtained his master's degree from Harvard University.



### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Cont'd)*

Mr. **Xin Shu-Lin, Steve** (48). Appointed as Director of the Company in 1998. He joined the Company in 1994 as Executive Vice President in charge of direct investment. Previously Mr. Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992. Mr. Xin is also director of China Assets (Holdings) Limited and RBI Holdings Limited, the Company's associated companies which are listed on The Stock Exchange of Hong Kong Limited.

Mr. **Yeung Wai-Kin** (40). Appointed as Director of the Company in 1998. He is also Chief Financial Officer and Company Secretary of the Company. Mr. Yeung joined the Company in 1993 and has over 18 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited and RBI Holdings Limited, the Company's associated companies which are listed in The Stock Exchange of Hong Kong Limited. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong.

Mr. **Hu Yi-Ming** (39). Appointed as Director of the Company in 1998. He joined the First Shanghai Group in 1996 as Managing Director of its Assets Management Division. Prior to joining the First Shanghai Group, Mr. Hu was Vice President - Foreign Exchange of Banque Paribas, Hong Kong Branch. Mr. Hu graduated with a Bachelor of Economics degree from the Shanghai University of Finance and Economics. After his graduation, he gained extensive experience in money market dealing from several reputable corporations in PRC, USA and Singapore.

Mr. **Xu Wei-Ming** (55). Appointed as Director of the Company in 1998. Currently Managing Director of Shanghai Jing Long Business Co Ltd. He graduated from English Department of Shanghai Fudan University, got the Master of Arts of California State University, Sacramento in the United States. Before that, he served as a teacher in the Economic Administration Department of China Textile University.

Mr. **Jiang Guo-Fang** (45). Appointed as Director of the Company in 1996. Acquired MBA Master's Degree from the Asia (Macau) International Open University. Currently Executive Vice President of Shenyin & Wanguo Securities Co., Ltd. and Chairman of Shenyin Wanguo (Hong Kong) Ltd. He has over 14 years working experience in the People's Bank of China, Shanghai Branch and The Industrial & Commercial Bank of China, Shanghai Branch. He took the position of Executive Vice President of Shanghai Shenyin Securities Co., Ltd since 1992, and that of Shenyin & Wanguo Securities Co. Ltd. since 1996.



## REPORT OF THE DIRECTORS

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Mr. **Lu Wen-Qing** (44). Appointed as Director of the Company in 1996. Currently Managing Director of International Business Division of Shenyin & Wanguo Securities Co., Ltd. and a Non-Executive Director of Shenyin Wanguo (Hong Kong) Ltd. He graduated from the Shanghai University of Finance & Economics. Prior to joining Shanghai Shenyin Securities Co. Ltd., he served as a senior officer in Shanghai Trust & Investment Corporation of The Industrial & Commercial Bank of China and as an attaché of the Chinese Embassy in Gabon.

Professor **Woo Chia-Wei** (64). Appointed as Independent Non-Executive Director in 1993. Currently Senior Advisor to the Shui On Holdings Limited. President Emeritus of the Hong Kong University of Science and Technology. Previously President, Provost, Department Chairman, and Professor of several reputable universities in the United States of America. He is also an independent non-executive director of several companies including Shanghai Industrial Holdings Limited and Legend Holdings Limited. He serves on the Commission on Strategic Development and Council of Advisors on Innovation and Technology of HKSAR, and the Chinese People's Political Consultative Conference.

Mr. **Kwok Lam-Kwong, Larry** (46). Appointed as Independent Non-Executive Director in 1995. Mr. Kwok is a practising solicitor in Hong Kong and also qualified to practise as a solicitor in Australia, England and Singapore. He is also qualified as an accountant in Hong Kong and Australia. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He is currently the Vice-Chairman of the Consumer Council, a member of the Hospital Governing Committee of the Princess Margaret Hospital, a member of the Criminal & Law Enforcement Injuries Compensation Boards and a member of the Trade and Industry Advisory Board in Hong Kong. He is a member of the Political Consultative Committee of Guangxi of the People's Republic of China.

Mr. **Wang Jun-Yan** (32). Joined the Company in October 1997, is the Managing Director of First Shanghai Financial Holding Limited, an immediate holding company of the financial service division of the First Shanghai Group. He is also a director of China Assets (Holdings) Limited, the Company's associated company which is listed in The Stock Exchange of Hong Kong Limited. Mr. Wang has more than 9 years experience in investment banking and securities industry. Mr. Wang holds a bachelor's degree with a major in International Trade from the Zhongshan University. He has also studied in a Ph.D. program of Finance in the City University of New York.

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## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Mr. **Mo Siu-Lun, Henry** (39). Joined the Company in January 2000 as Chief Information Officer of the Group. Mr. Mo has over 19 years of managerial and technical experience in the information technology, manufacturing and marketing communication sector. Prior to joining the Group, he had held various management positions with major public listed companies. He obtained his Postgraduate Diploma in Engineering Management from City University of Hong Kong and a Master's Degree in Manufacturing Systems Engineering from Warwick University of the United Kingdom.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business 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.

## DIRECTORS' INTERESTS IN SHARE EQUITY OR DEBT SECURITIES

At 31st December 2001, the interests of the directors in the shares and options of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained by the Company under Section 29 of SDI Ordinance or as notified to the Company are as follows:—

Name of directors	Number of ordinary shares		
	Personal interests	Family interests	Corporate interests
Mr. Lao Yuan-Yi	42,080,000	—	75,308,000
Prof. Woo Chia-Wei	—	72,000	—

Arrangement on share options granted to directors are set out in the previous part of this report. Saved as disclosed above, none of the directors had any interests in the shares and options of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31st December 2001.

Apart from the share option scheme as mentioned in the previous part of this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors and chief executive (including their spouse and children under 18 years of age) of the Company and its associated corporations, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.





## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December 2001, the Company had been notified of the following substantial shareholder's interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

<b>Name of shareholder</b>	<b>Number of ordinary shares in the Company</b>
China Assets (Holdings) Limited ("China Assets")	238,032,000

China Assets is a Hong Kong listed company which is also an associated company of the Group. Apart from the above, so far as the directors are aware, there are no parties which were, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital of the Company as at 31st December 2001.

### 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 aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers respectively are both less than 30% for 2001 and 2000.

# REPORT OF THE DIRECTORS



## FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:—

	2001	Restated 2000	1999	1998	Restated 1997
	<b>HK\$'000</b>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	<b>1,228,273</b>	1,108,722	1,043,037	1,261,502	1,400,985
Total liabilities (Including minority interests)	<b>124,393</b>	113,552	107,814	422,823	441,610
Total net assets	<b>1,103,880</b>	995,170	935,223	838,679	959,375
Turnover	<b>298,332</b>	289,810	719,455	914,009	636,126
Profit/(loss) attributable to shareholders	<b>64,790</b>	58,379	54,321	(143,029)	16,894
Earnings/(loss) per share					
— basic	<b>5.77 cents</b>	5.20 cents	5.10 cents	(13.92 cents)	2.03 cents
— fully diluted	<b>5.70 cents</b>	5.17 cents	5.08 cents	N/A	N/A

In accordance with SSAP9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the year, except that the independent non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.



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### AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998. To comply with the revised Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company has appointed the two independent non-executive directors of the Company, Prof. Woo Chia Wei and Mr. Kwok Lam Kwong, Larry as members of the Audit Committee. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. Three meetings were held during the current financial year.

### SUBSEQUENT EVENTS

Details of significant events which have been taken place subsequent to the balance sheet date are set out in note 28 to the accounts.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**LAO Yuan Yi**

*Chairman and Managing Director*

Hong Kong, 19th April 2002