

# REPORT OF THE DIRECTORS

The directors present their report to the shareholders together with the audited financial statements for the financial year ended 31 December 2001.

## PRINCIPAL ACTIVITIES

The principal activity of the Company and of its subsidiaries is the holding of equity investments and convertible loan primarily in companies or other entities with business interests or involvement in the People's Republic of China or Hong Kong.

## SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's principal subsidiaries and jointly controlled entities at 31 December 2001 are set out on pages 39 to 41.

## RESULTS

The results of the Group for the financial year ended 31 December 2001 are set out in the consolidated profit and loss account as set out on page 23.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is given on pages 52 and 53.

## DIVIDENDS

The directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2001.

## SHARE CAPITAL

Details of the Company's authorised and issued share capital during the financial year are set out in note 14 to the financial statements on pages 45 and 46.

## RESERVES

Movements in the reserves during the financial year are set out in note 15 to the financial statements on pages 47 and 48.

## DIRECTORS

The directors of the Company during the financial year were:

Mr Liu Xiao Guang  
Mr Cheng Bing Ren  
Mr John Ashton Dare  
Mr Gao Ji Lu  
Mr Yu Sek Kee  
Mr Lawrence H Wood (also known as Wu Yuk Shing or Hu Xu Cheng)  
Mr How Peck Huat  
Mr Jan Bosma  
Mr Liu Xue Min  
Mr Poon Kai Leung  
Mr Kelvin Tan Wee Peng  
Mr Tong Ng Siu Yee  
Mr Li Kai Cheong Samson  
Ms Wu Suk Ching Annie

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Mr Jan Bosma resigned as director on 14 May 2001. Mr How Peck Huat resigned as director on 31 December 2001. Mr Poon Kai Leung and Mr Kelvin Tan Wee Peng were appointed as director on 28 August 2001 and 25 March 2002 respectively.

Mr Poon Kai Leung and Mr Kelvin Tan Wee Peng who were appointed to the board since the last annual general meeting, will retire from the board in accordance with Article 93 of the Company's articles of association and Mr Cheng Bing Ren, Mr Yu Sek Kee, Mr Liu Xue Min and Mr Lawrence H Wood will also retire by rotation from the board in accordance with Article 97 of the Company's articles of association at the forthcoming annual general meeting. Mr Poon, Mr Tan, Mr Cheng, Mr Yu, Mr Liu and Mr. Wood, all being eligible, offer themselves for re-election.

None of the retiring directors 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 SHARES

As at the date of this report, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as notified to the Company were as follows:

Interest in options to acquire ordinary shares of the Company:

A share option scheme was approved by the Company in an extraordinary general meeting held on 16 August 2001 under which the board of directors of the Company may, at its discretion, grant to any executive director or senior employee of the Company, or any director or senior employee of any subsidiaries from time to time of the Company, to subscribe for the Company's shares. Details of the share option scheme are set out in note 14 to the financial statements on page 46. Details of the movements of directors' interests in options during the year are as follows:

Name of director	Number of options granted	Number of options exercised during the year	Number of options held as at the date of this report	Exercise period	Exercise price per share
Mr Liu Xiao Guang	5,388,900	Nil	5,388,900	28/5/2002-27/11/2004	HK\$0.298
Mr Cheng Bing Ren	2,694,450	Nil	2,694,450	28/5/2002-27/11/2004	HK\$0.298
Mr John Ashton Dare	2,694,450	Nil	2,694,450	28/5/2002-27/11/2004	HK\$0.300
Mr Gao Ji Lu	2,694,450	Nil	2,694,450	28/5/2002-27/11/2004	HK\$0.298
Mr Lawrence H Wood	5,388,900	Nil	5,388,900	28/5/2002-27/11/2004	HK\$0.298
Mr Yu Sek Kee	2,694,450	Nil	2,694,450	28/5/2002-27/11/2004	HK\$0.300
Mr Kwan Bo Ren	5,388,900	Nil	5,388,900	28/5/2002-27/11/2004	HK\$0.298

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Save as disclosed above, as at the date of this report, none of the directors and chief executive and their respective associates had any beneficial or non-beneficial interests in shares or debt securities of the Company or its associated corporations as defined in the SDI Ordinance. Furthermore, apart from the options referred to above, none of the directors or any of their spouses or children under the age of eighteen were granted any rights or options to subscribe for shares or debt securities of the Company or of its associated corporations.

## SUBSTANTIAL SHAREHOLDERS

Shown below are the names of all parties which were, directly or indirectly, interested in 10 per cent. or more of the issued share capital of the Company and the corresponding entries of the number of shares in which they were, and/or were deemed to be, interested as at 31 December 2001 as recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the Securities (Disclosure of Interests) Ordinance:

<b>Names</b>	<b>No. of Ordinary Shares</b>
ING Groep N.V.	85,140,000
B.V. Algemene Beleggingsmaatschappij Kievitsdaal	85,140,000

*Note:*

For the avoidance of double counting, it should be noted that in accordance with sections 8(2), (3) and (4) of the SDI Ordinance:

- ING Groep N.V. is deemed to be interested in the same parcel of shares of 85,140,000 held by B.V. Algemene Beleggingsmaatschappij Kievitsdaal by virtue of its interest in that company.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material beneficial interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

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## SHARE OPTION SCHEME

As at 31 December 2001, the particulars in relation to the share option scheme of the Company that are required to be disclosed under Rules 17.07 and 17.09 of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, were as follows:

### (a) Share option scheme of the Company

Since the adoption of the share option scheme of the Company on 16 August 2001, other than the options detailed below, no options to subscribe for ordinary shares in the Company have been granted to any eligible participants under the share option scheme; and no options have been cancelled or lapsed in accordance with the terms of the share option scheme during the financial year.

	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the year	Price per share on exercise of options (HK\$)	Market value per share immediately before date of grant of options (HK\$)	Market value per share on exercise of options
<i>Directors</i>								
Liu Xiao Guang	Nil	5,388,900	27/11/01	28/05/02 - 27/11/04	Nil	0.298	0.29	N/A
Cheng Bing Ren	Nil	2,694,450	27/11/01	28/05/02 - 27/11/04	Nil	0.298	0.29	N/A
John Ashton Dare	Nil	2,694,450	12/12/01	28/05/02 - 27/11/04	Nil	0.3	0.3	N/A
Gao Ji Lu	Nil	2,694,450	27/11/01	28/05/02 - 27/11/04	Nil	0.298	0.29	N/A
Lawrence H. Wood	Nil	5,388,900	27/11/01	28/05/02 - 27/11/04	Nil	0.298	0.29	N/A
Yu Sek Kee	Nil	2,694,450	11/12/01	28/05/02 - 27/11/04	Nil	0.3	0.3	N/A
Kwan Bo Ren	Nil	5,388,900	27/11/01	28/05/02 - 27/11/04	Nil	0.298	0.29	N/A

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### (b) Summary of the share option scheme of the Company is set out as follows:

Purpose:	To give incentive to executive directors of the Company and directors its subsidiaries
Participants:	Executive directors of the Company and directors of its subsidiaries
Total number of ordinary shares available for issue and percentage of the issued share capital that it represents as at the date of the annual report:	53,884,000 ordinary shares and 9.99% of the issued share capital
Maximum entitlement of each participant:	Not to exceed 1% of the issued share capital in any 12 month period
Period within which the securities must be taken up under an option:	30 calendar months commencing from the expiration of the first 6 calendar months period after the offer date of the relevant option
Minimum period for which an option must be held before it can be exercised:	6 calendar months after the offer date of the relevant option
Amount payable on acceptance of an option:	HK\$10
Period within which payments/calls/loans must be made/repaid:	Not applicable
The remaining life of the share option scheme:	Valid until 16 August 2006 unless otherwise terminated under the terms of the option scheme

### MANAGEMENT CONTRACTS

Under an investment management agreement made between the Company and Baring Capital (China) Management Limited (then known as ING Luxfund Management (Hong Kong) Limited) ("Investment Manager") dated 25 April 1994, the Investment Manager agreed to provide investment management services in relation to the investment portfolio of the Group for a period of three years from the date of the agreement. The Investment Manager, in accordance with the terms of the agreement as revised by a supplemental agreement dated 22 May 1998 and a second supplemental agreement dated 7 January 1999, is entitled to a fee calculated at the rate of 2.00 per cent. per annum of the net asset value of the Company, payable quarterly in advance. The Investment Manager is also entitled, with effect from the financial year ended 31 December 1999, to receive an incentive fee calculated at (i) 10 per cent. of the realised profit of the Company for a financial year if the realised profit per issued share does not exceed 10 per cent.; (ii) 15 per cent. of the realised profit if the realised profit per issued share exceeds 10 per cent. but is below 15 per cent.; or (iii) 20 per cent. of the realised profit if the realised profit per share equals or exceeds 15 per cent. The agreement is determinable by either the Investment Manager or the Company giving to the other party not less than 6 months' prior notice of termination.

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Under an agreement between the Company, the Investment Adviser and Beijing Guanwei Investment & Management Adviser Corporation ("PRC Investment Adviser") dated 16 April 1998, the PRC Investment Adviser agrees to provide consultancy and advisory services in relation to the Company's investments in the PRC. The PRC Investment Adviser is entitled to receive a consultancy fee payable quarterly in advance at the rate of 0.10 per cent. per annum on the net asset value of the Company, and a fee for sourcing and monitoring investment projects calculated at the rate of 0.65 per cent. per annum of that portion of the Company's net asset value at each quarter day which is attributable to the investment projects entered into by the Company and which were introduced by the PRC Investment Adviser. The agreement with the PRC Investment Adviser is determinable by either the PRC Investment Adviser or the Company giving to the other parties thereto not less than 6 months' prior notice of termination.

Under an agreement between the Company and Internationale Nederlanden Capital Markets (Hong Kong) Limited ("INGCM") dated 25 April 1994, INGCM agreed to provide administrative services to the Company. The agreement is for an initial term of one year from the date of the agreement, which term may be renewed for a further term of two years subject to the agreement between the parties to the agreement. The agreement was assigned from INGCM to ING Management (Hong Kong) Limited ("Administrator") with effect from 1 November 1994. Pursuant to the terms of a supplemental agreement entered into between the Company and the Administrator dated 25 July 1995, the term of appointment of the Administrator was renewed for a further term of two years commencing on 25 April 1995, which term may be renewed for a further term of two years subject to agreement between the Company and the Administrator. By a further supplemental agreement dated 22 May 1998, the appointment of the Administrator was renewed subject to termination by either the Administrator or the Company giving to the other party not less than 6 months' prior notice of termination.

## **ARRANGEMENTS TO PURCHASE SHARES BY DIRECTORS**

At no time during the financial year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **INVESTMENTS**

Details of the Group's investments as at 31 December, 2001 are set out on pages 42 to 44.

## **BANK LOAN, OVERDRAFTS AND OTHER BORROWINGS**

The Group has no bank loan, overdraft or other borrowing outstanding as at 31 December 2001.

## **INTEREST CAPITALISED**

There is no interest capitalised by the Group during the financial year.

## **AUDIT COMMITTEE**

The Audit Committee comprises three Non-executive Directors, two of them being independent. This Committee acts in an advisory capacity and makes recommendations to the Board. It met on 17 April 2002 to review the Group's 2001 final results before it was tabled for the Board's approval.

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## CODE OF BEST PRACTICE

The Company has complied with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. throughout the financial year except that Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with Article 97 of the Company's Articles of Association.

## AUDITORS

The financial statements have been audited by KPMG, who retire and being eligible, offer themselves for re-appointment.

On behalf of the Board

**Liu Xiao Guang**

Chairman

Hong Kong, 23rd April 2002