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 its subsidiaries are set out in note 17 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 profit 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 24 to 84.

No interim dividend was paid during the year. The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2001.

Summary financial information

A summary of the published results and of the 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 85. 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 notes 13 and 14 to the financial statements, respectively. Further details of the properties held by the Group are set out on page 86.

Share capital, share options and warrants

Details of movements in the Company's share capital, share options and warrants during the year, together with reasons therefor, are set out in note 36 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 37 to the financial statements.

Directors

The directors of the Company during the year were as follows:

Executive directors

Kong Look Sen *(Chairman and managing director)* Kong Li Jer Kong Li Szu

Independent non-executive directors

Ku Suen Fai Fai Cheong Hau

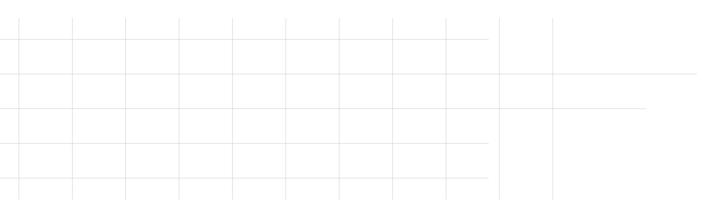
In accordance with articles 1(G), 79 and 81 to 84 of the Company's articles of association, Mr. Kong Li Jer will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Biography of Directors and Senior Management

Biographical details of the directors and the senior management of the Company are set out on pages 21 to 22 of the annual report.

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, other than statutory compensation.



Directors' interests in shares and warrants

At the balance sheet date, the interests of the directors and their associates in the share capital and warrants of the Company or its associated corporations, as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (The law of Hong Kong Chapter 396) (the "SDI Ordinance"), were as follows:

		No. of ordinary shares	
Name of director	Nature of interest	of HK\$0.10 each	Warrants <i>HK</i> \$
Kong Look Sen	Corporate (1), (3)	1,265,433,836	43,064,168
Kong Li Jer	Corporate (1), (3)	1,265,433,836	43,064,168
Kong Li Szu	Corporate <i>(2), (3)</i>	872,058,042	43,064,168

Notes:

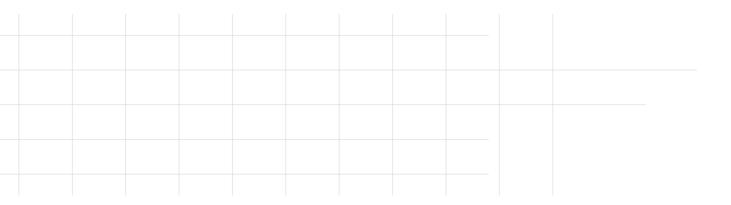
- (1) The interest in 1,265,433,836 shares comprise of 872,058,042 shares being held by Kong Fa Holding Limited ("Kong Fa") and 393,375,794 shares by Kong Sun Enterprise Sdn. Bhd. ("KSE"), respectively. Messrs. Kong Look Sen and Kong Li Jer are the directors and shareholders of Kong Fa and KSE.
- (2) The interests in 872,058,042 shares are held by Kong Fa, of which Mr. Kong Li Szu is a director and shareholder.
- (3) The interests in HK\$43,064,168 warrants are held by Kong Fa, of which Messrs. Kong Look Sen, Kong Li Jer and Kong Li Szu are directors and shareholders.

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, and other than certain nominee interests in the subsidiaries held in trust for the Company, none of the directors or their associates had any beneficial interest in the 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 headings "Directors' interests in shares and warrants" above and "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, its holding company, or any of its subsidiaries or 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 operated an employee share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, and the permanent employees of the Group. The Scheme became effective on 31 May 2001 and, is terminated by the revised Chapter 17 of The Rules Governing the Listing Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") on 1 September 2001. As a result, the company can no longer grant any further share option under the Scheme. However, all share option granted prior to the termination of the Scheme will remain in full force and effect.

At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 68,282,085, which represented approximately 3.3% of the Company's shares in issue as at the report date. The maximum number of shares issuable under share options to each eligible participant in the Scheme shall not exceed 25% of the maximum aggregate number of shares in respect of the options granted under the Scheme.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercisable period of the granted share options commences after a 6-month vesting period and ends on a date which is not later than five years from the commencement of the exercisable period or the expiry date of the Scheme, if earlier.

The exercise price of the share options is 80% of the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer of the option.



Share option scheme (continued)

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

Name of Director	Number of share options granted during the year and at 31 December 2001	Date of grant of share options	Exercisable period of share options	Consideration paid upon acceptance of the share options	Exercise price of share options HK\$	Price of Company's shares at grant date of options HK\$
Kong Look Sen	22,760,695	7 July 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23
Kong Li Jer	22,760,695	7 July 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23
Kong Li Szu	22,760,695	7 July 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23

Summary details of the Company's share option scheme are also set out in note 36 to the financial statements.

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 over the nominal value of the shares is recorded by the Company in the share premium account.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors 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.



Substantial shareholders

At 31 December 2001, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following shareholders were interested in 10% or more of the issued share capital of the Company:

Name	Number of ordinary shares held	Percentage of issued share capital	
Kong Fa	872,058,042	42.43%	
KSE	393,375,794	19.14%	

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and warrants" above, 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.

Directors' interests in contracts

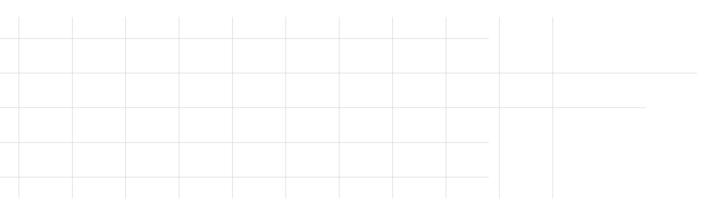
Save as disclosed in note 42 to the financial statements, no director had a beneficial interest in any contract of significance to the business of the Company to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Connected transactions

During the year, the Group had certain transactions, as further detailed in note 42 to the financial statements, which constituted connected transactions under the Listing Rules. In the opinion of the directors, the connected transactions were conducted in the normal course of business and the Company has complied with the relevant requirements under Chapter 14 of the Listing Rules.

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.



Distributable reserves

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, Chapter 32, amounted to HK\$49,286,000. In addition, the Company's share premium account, in the amount of HK\$235,318,000, may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$4,457.

Liquidity and financial resources

As at 31 December 2001, the Group had total assets of HK\$841,536,000 which were financed by current liabilities of HK\$88,432,000, long term bank loans and other loan of HK\$124,662,000, deferred tax of HK\$501,000, minority interests of HK\$89,440,000 and shareholders' equity of HK\$538,501,000. The Group's working capital ratio at the balance sheet date was approximately 2.06:1. The directors believe that the Group has a healthy working capital ratio.

As at 31 December 2001, the Group had aggregate composite banking facilities from banks of HK\$43 million, of which HK\$38 million had been utilised, and cash and bank balances of approximately HK\$15 million.

The Group had contracted for capital commitments of approximately HK\$53 million as at the balance sheet date. The directors are considering various funding plans to finance the commitments.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 75% of the total sales for the year and sales to the largest customer included therein amounted to 43%. Purchases from the Group's five largest suppliers accounted for 99% of the total purchases for the year and purchases from the largest supplier included therein amounted to 73%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.



Employees and employment policies

As at 31 December 2001, the Group has a workforce of 60 staff. The Group employs and remunerates its staff based on their performance and experience. In addition to basic salary payments, staff members are covered by the Group's health and medical scheme, discretionary bonus, share option scheme and mandatory provident fund scheme.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 43 to the financial statements.

Code of best practice

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report. Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

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

Chairman

Hong Kong 22 April 2002