

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries and associates are set out in notes 15 and 17 respectively to the financial statements.

SUBSIDIARIES AND ASSOCIATES

On 20th January, 2001, the Group acquired 45% of the issued share capital of Sharpo Holdings Limited ("Sharpo") from an outsider at a consideration of approximately HK\$46,845,000 inclusive of incidental costs. Sharpo is a company incorporated in the British Virgin Islands ("B.V.I.") and is engaged in e-commerce consultancy, software development, system integration, web design and sales of software.

On 19th April, 2001, the Group acquired 60% of the issued share capital of CTIA VSAT Network Limited ("CTIA") by acquiring the entire issued share capital of CTIA's holding company, Excellent Idea Group Limited ("EIGL"). The acquisition is made at a cash consideration of approximately HK\$65,504,000 inclusive of incidental costs. CTIA is incorporated in Hong Kong and is engaged in investment holding. CTIA's 60% subsidiary is engaged in providing telecommunication services and has a 35% interest in a company which is an integrator and provider of information and data for broadcasting in the People's Republic of China ("PRC"). The Group subsequently disposed of its entire shareholding in EIGL to an outsider at a consideration of HK\$68,000,000.

On 29th September, 2001, the Group disposed of its 49% interests in issued share capital of Sharp Capital Investments Limited ("Sharp Capital") to an outsider at a consideration of HK\$25,000,000. Sharp Capital is incorporated in Hong Kong and is engaged in property investment.

On 6th December, 2001, the Group disposed of its 80% interests in issued share capital of Henan Motor Car Repairing Company Limited 河南小汽車修理有限公司 ("HMCR") to an outsider at a consideration of HK\$10,000,000. HMCR is incorporated in the People's Republic of China ("PRC") and is engaged in the provision of automobile repair and maintenance services.

On 31st December, 2001, the Group disposed of its entire shareholding in Grace Melody Enterprises Limited, which holds the entire issued share capital of Henan Hong Kong (Jiyuan) Coking Company Limited 豫港(濟源)焦化有限公司 ("HH Coking"), to an outsider at a consideration of RMB23,588,000 (approximately HK\$22,045,000). HH Coking is incorporated in the PRC and is engaged in the manufacture and sale of coke, coal gas, coal tar and benzene.

Particulars of the Company's principal subsidiaries and associates at 31st December, 2001 are set out in notes 15 and 17, respectively, to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 14.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 28 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 55.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

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

An aggregate of 10,000,000 share options were cancelled and 400,000,000 share options were lapsed during the year.

Details of the Company's share capital and share options are set out in notes 26 and 27, respectively to the financial statements.

BANK BORROWINGS

Details of the Group's bank borrowings are set out in note 25 to the financial statements. No interest was capitalised by the Group during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Chan Chi Keung, Victor	
Chung Chi Shing	
Lin Hoi Kwong	(appointed on 8th February, 2001)
Zhang Fan	(appointed on 22nd March, 2001)
Wang Zhiqiang	(appointed on 10th July, 2001)
Li Chun Tak	(resigned on 22nd March, 2001)
Lim Fai	(resigned on 31st August, 2001)
Tang Yin	(resigned on 31st August, 2001)
Yin Mingde	(resigned on 31st August, 2001)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

Independent non-executive directors:

Lee Yu Leung
 Lo Ka Lok, Steve (appointed on 8th February, 2001)
 Yan Daniel X.D. (resigned on 8th February, 2001)

In accordance with Article 98 of the Company's Articles of Association, Mr. Wang Zhiqiang shall hold office only until the next following annual general meeting of the Company and being eligible, offer himself for re-election. In accordance with Article 107(A) of the Company's Articles of Association, Messrs. Zhang Fan and Lee Yu Leung retire by rotation and, being eligible, offer themselves for re-election.

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2001, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance or as otherwise notified to the Company and to the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of directors	Number of ordinary shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Chan Chi Keung, Victor	—	—	180,000,000 <i>(Note)</i>	—
Chung Chi Shing	—	—	180,000,000 <i>(Note)</i>	—
Lin Hoi Kwong	20,000	—	—	—

Note: The shares are held by Smart House Investments Limited, a company beneficially owned by both Mr. Chan Chi Keung, Victor and Mr. Chung Chi Shing.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Group, as at 31st December, 2001, none of the directors or their associates had any interests in any securities of the Company and its associated corporations as defined in the SDI Ordinance.

SHARE OPTIONS

- (i) Chamber Sprit Limited ("CSL") was interested in 260,000,000 share options of the Company exercisable within one year from 31st May, 2000 at a cash subscription price of HK\$0.22 per share. CSL was beneficially owned by Messrs. Chan Chi Keung, Victor and Chung Chi Shing, both being directors of the Company from 15th May, 2001. These options were lapsed during the year.

SHARE OPTIONS (continued)

- (ii) In accordance with the Company's share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed on 24th July, 1992 and which will expire on 23rd July, 2002, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares of the Company in order to recognize the significant contributions of the eligible employees to the Group.

At 31st December, 2001, the number of shares in respect of which options has been granted under the Scheme was 59,500,000, representing 2.23% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The maximum number of shares in respect of which options may be granted under the Scheme in any one financial year shall not exceed 3% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The total number of shares in respect of which options may be granted to any eligible employee is not permitted to exceed 25% of the total number of shares in respect of which options may be granted under the Scheme, without prior approval from the Company's Shareholders.

No consideration is payable on the grant of an option. Options may generally be exercised at any time during the period commencing on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary thereof. The exercise price is the higher of the nominal value of the shares and an amount which is based on 80% of the average of the closing prices of the shares of the Company on the five business days immediately preceding the date of grant.

The following table discloses movements in the Company's share options under the Scheme during the year:

	Exercisable period	Exercise price per share HK\$	Number of share options		
			Outstanding at 1.1.2001	Cancelled during the year	Outstanding at 31.12.2001
<i>Former directors</i>					
Yiu Chiu Fai	26.1.2001 to 25.1.2010	0.3300	9,000,000	—	9,000,000
Yin Mingde	31.7.2001 to 30.7.2010	0.2784	5,000,000	(5,000,000)	—
Tang Yin	31.7.2001 to 30.7.2010	0.2784	5,000,000	(5,000,000)	—
Lam Kong Yin, Patrick	26.1.2001 to 25.1.2010	0.3300	9,000,000	—	9,000,000
Total			<u>28,000,000</u>	<u>(10,000,000)</u>	<u>18,000,000</u>
<i>Employees</i>					
	26.1.2001 to 25.1.2010	0.3300	1,500,000	—	1,500,000
	3.2.2001 to 2.2.2010	0.3648	10,000,000	—	10,000,000
	6.4.2001 to 5.4.2010	0.4968	5,000,000	—	5,000,000
	19.6.2001 to 18.6.2010	0.3152	4,000,000	—	4,000,000
	28.7.2001 to 27.7.2010	0.2784	9,000,000	—	9,000,000
	31.7.2001 to 30.7.2010	0.2784	12,000,000	—	12,000,000
Total			<u>41,500,000</u>	<u>—</u>	<u>41,500,000</u>
Total all categories			<u>69,500,000</u>	<u>(10,000,000)</u>	<u>59,500,000</u>

SHARE OPTIONS (continued)

There were no options outstanding under the Scheme to the directors of the Company at any time during the year.

No options are granted, exercised or lapsed under the Scheme during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options referred to above, at no time during the 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 the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors, their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

- (i) The Group did not recognise any guaranteed profit receivable from Henan Hongkong Finance Limited ("HHF") for the year ended 31st December, 2001. Details of this are set out in note 39 to the financial statements.
- (ii) At 31st December, 2001, bank loans of HK\$34,830,000 was guaranteed without charge by HHF, a wholly owned subsidiary of Henan Hongkong Enterprises Limited ("HHE").
- (iii) Details of balance with a related company are set out in note 24 to the financial statements.

In the opinion of the independent non-executive directors, these transactions entered into by the Group, if applicable, were:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance disclosed the following shareholders as having an interest of 10% or more in the share capital of the Company:

Name of shareholder	Number of ordinary shares held	%
HHE	373,364,000	14.02
Fulham Associates Limited ("Fulham")	366,150,000	13.75
HHF	<u>5,570,000</u>	<u>0.21</u>

SUBSTANTIAL SHAREHOLDERS (continued)

Fulham and HHF are both wholly owned by HHE. The interests disclosed under HHE represent the aggregate of its direct interests of 1,644,000 ordinary shares in the Company together with its deemed interests in the shares of the Company by virtue of its interests in Fulham and HHF. HHE is wholly owned by the Henan Provincial Government.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2001.

SUBSEQUENT EVENTS

Details of significant events that have taken place subsequent to the balance sheet date are set out in note 37 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$200,000.

CORPORATE GOVERNANCE

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, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest supplier contributed 15% to the total purchases for the year and the aggregate amount of purchases attributable to the Group's top five suppliers represented 53% of the Group's total purchases.

The Group's largest customer accounted for 22% of the Group's turnover (excluding guaranteed return) and 57% of the total turnover (excluding guaranteed return) of the Group was attributable to the Group's top five customers.

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

AUDITORS

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chan Chi Keung, Victor
DIRECTOR

Hong Kong
26th April, 2002