

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

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of its principal subsidiaries and jointly controlled entity are set out in notes 13 and 14 to the financial statements respectively.

### **RESULTS**

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 26.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total sales and purchases respectively.

### **SHARE CAPITAL**

There were no changes in the issued share capital of the Company during the year.

### **RESERVES**

Details of the movements during the year in the reserves of the Group and the Company are set out in note 24 to the financial statements.

The Company had no distributable reserve at 31st December, 2001.

### **INVESTMENT PROPERTIES**

At 31st December, 2001, the investment properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis. The deficit of HK\$3 million arising on the revaluation has been charged to the income statement.

Details of these and other movements during the year in the investment properties of the Group are set out in note 11 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs on construction in progress of approximately HK\$3 million and acquired other property, plant and equipment at a cost of approximately HK\$11 million for the purpose of expanding the Group's business.

The Group also transferred all of its construction-in-progress with net book value of approximately HK\$139 million to the appropriate categories of property, plant and equipment as a result of the completion of the construction.

Details of these and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

#### Executive directors:

WANG Jun (*Chairman*)

HE Ping (*Vice-Chairman*)

LI Shi Liang (*Managing Director*)

XIE Da Tong

LI Tong Zhou

JI Jun

(resigned on 31st May, 2001)

#### Independent non-executive directors:

SETO Gin Chung, John

FUNG Wing Cheung, Tony

ZHUANG Shoucang

IP Chun Chung, Robert

(appointed on 10th January, 2001)

LAM Tak Shing

(appointed on 10th January, 2001)

### **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS** *(Continued)*

In accordance with Articles 96 and 105 of the Company's Articles of Association, Messrs. Li Tong Zhou, Fung Wing Cheung, Tony and Zhuang Shoucang will retire and, being eligible, offer themselves for re-election.

The term of office of each of the non-executive directors lasts until his retirement by rotation in accordance with the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting 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 SECURITIES**

At 31st December, 2001, none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance which is required to be recorded in the register maintained under Section 29 of the SDI Ordinance or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### **SHARE OPTIONS**

The Company's previous and existing share option schemes were adopted on 5th December, 1990 (the "1990 Scheme") and 19th June, 2001 (the "2001 Scheme") respectively for the primary purpose of providing incentives to directors and eligible employees.

Pursuant to the 1990 Scheme, which was expired on 4th December, 2000, the Company may grant options to the directors and the employees of the Company or its subsidiaries to subscribe for the shares in the Company for a nil consideration.

### SHARE OPTIONS *(Continued)*

On 19th June, 2001, the Company adopted the 2001 Scheme. Pursuant to the 2001 Scheme, which will expire on 18th June, 2011, the Company may grant options to the directors and the employees of the Company or its subsidiaries to subscribe for the shares in the Company for a consideration of HK\$1 for each lot of share options granted.

Options granted should be accepted within 21 days from the date of grant. The granted options are exercisable during the period commencing on the date of grant and expiring on the date ten years after the date of grant. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued capital of the Company from time to time excluding the aggregate number of shares already allotted and issued pursuant to the share option schemes.

The exercise price is determined by the directors of the Company, and shall not be less than the higher of the nominal value of the Company's shares on the date of grant and 80% of the average closing price of the shares for the five business days immediate preceding the date of grant.

As 31st December, 2001, the aggregate number of shares in respect of which options had been granted under the Company's share option schemes were 119,700,000, representing 9.86% of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders, the total number of shares in respect of which may be granted under the 1990 Scheme and 2001 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time.

**SHARE OPTIONS** (Continued)

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

	Date of grant	Exercise price per share HK\$	Number of shares subject to options (Note 1)		
			Outstanding at 1.1.2001	Lapsed during the year	Outstanding at 31.12.2001
<b>Category 1: Directors</b>					
Wang Jun	3.9.1997	1.27	10,000,000	—	10,000,000
	5.6.1998	0.50	10,000,000	—	10,000,000
	30.11.2000	0.50	7,000,000	—	7,000,000
He Ping	3.9.1997	1.27	10,000,000	—	10,000,000
	5.6.1998	0.50	10,000,000	—	10,000,000
	30.11.2000	0.50	7,000,000	—	7,000,000
Li Shi Liang	30.11.2000	0.50	8,400,000	—	8,400,000
Xie Da Tong	3.9.1997	1.27	8,000,000	—	8,000,000
	5.6.1998	0.50	8,000,000	—	8,000,000
	30.11.2000	0.50	5,500,000	—	5,500,000
Ji Jun (Note 2)	3.9.1997	1.27	5,000,000	—	5,000,000
	5.6.1998	0.50	5,000,000	—	5,000,000
	30.11.2000	0.50	3,400,000	—	3,400,000
			<u>97,300,000</u>	<u>—</u>	<u>97,300,000</u>
<b>Category 2: Employees</b>					
	3.9.1997	1.27	15,400,000	(1,000,000)	14,400,000
	5.6.1998	0.50	8,000,000	—	8,000,000
			<u>23,400,000</u>	<u>(1,000,000)</u>	<u>22,400,000</u>
<b>Total</b>			<u>120,700,000</u>	<u>(1,000,000)</u>	<u>119,700,000</u>

No share options were granted or exercised during the year.

### SHARE OPTIONS *(Continued)*

*Notes:*

1. All share options were granted under the 1990 Scheme.
2. Mr. Ji Jun resigned as director of the Company on 31st May, 2001 but remains as a director of certain subsidiaries of the Company.

Save as disclosed above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or 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 debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share Options" above, at no time during the year was the Company or 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 debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

**SUBSTANTIAL SHAREHOLDERS**

At 31st December, 2001, according to the register of substantial shareholders maintained 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:

<b>Name of shareholders</b>	<b>Number of Shares held</b>
Silver Spirit Enterprises Limited ( <i>Note 1</i> )	243,488,000
Golden Mountain Limited ( <i>Note 1</i> )	246,689,104
Silver Point Assets Limited ( <i>Notes 1 and 2</i> )	490,177,745
Continental Mariner Investment Company Limited ("CMIC") ( <i>Notes 2, 3 and 4</i> )	564,957,745
Source Holdings Limited ( <i>Notes 4, 5 and 6</i> )	564,957,745
Ting Shing Holdings Limited ("Ting Shing") ( <i>Notes 4, 5 and 6</i> )	564,957,745
Ringo Trading Limited ( <i>Notes 4, 5 and 6</i> )	564,957,745
China Poly Group Corporation ("China Poly") ( <i>Note 6</i> )	564,957,745

*Notes:*

1. Silver Spirit Enterprises Limited and Golden Mountain Limited are wholly owned subsidiaries of Silver Point Assets Limited which is deemed by the SDI Ordinance to be interested in 243,488,000 and 246,689,104 Shares of the Company beneficially owned by Silver Spirit Enterprises Limited and Golden Mountain Limited respectively.
2. Silver Point Assets Limited is the beneficial owner of 641 Shares of the Company. It is a wholly owned subsidiary of CMIC which is deemed by the SDI Ordinance to be interested in 490,177,745 Shares beneficially owned by Silver Point Assets Limited.
3. CMIC is also deemed to be interested in 74,780,000 Shares beneficially owned by its wholly-owned subsidiary.
4. Source Holdings Limited, the controlling shareholder of CMIC, is a subsidiary of Ting Shing which is a wholly owned subsidiary of Ringo Trading Limited.
5. These companies are subsidiaries of China Poly, a stated-owned enterprise established in the People's Republic of China (the "PRC").
6. These companies are deemed to be interested in the 564,957,745 Shares of the Company under the SDI Ordinance, by virtue of their interests in CMIC.

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

### CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the year are set out in note 33 to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in note 33 to the financial statements. In their opinion, these transactions were entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and
- (iv) within the relevant limits approved by the Stock Exchange.

### DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance 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, subsisting at the end of the year or at any time during the year.

### MANAGEMENT CONTRACT

The Company entered into a management agreement with CMIC Management Services Limited, a subsidiary of CMIC, for the provision of general corporate management and consultancy services to the Company with effect from 16th August, 1993.

Save as disclosed above, 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.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

**CORPORATE GOVERNANCE**

In the opinion of the directors, the Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

**AUDITORS**

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

On behalf of the Board

**Li Shi Liang**

*Managing Director*

Hong Kong, 18th April, 2002