

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 activities of the Company are investment holding and provision of management services. Details of the principal activities of the 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 loss 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 32 to 86.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and 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 88. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended) amounted to approximately HK\$78,518,000. In addition, the Company's share premium account, in the amount of approximately HK\$118,299,000 may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 56% (2000: 60%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 18% (2000: 20%).

Purchases from the Group's five largest suppliers accounted for approximately 39% (2000: 53%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 19% (2000: 38%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, owns 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.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Cheung Shuen Lung

Mr Lei Hon Sang

Professor Wei Xin

Professor Zou Wei

Mr Yung Richard, Jr.

Non-executive directors:

Professor Wang Xuan (resigned on 22 February 2002)

Mr Yung Chih Shin, Richard

Mr Yang Lin, Richard*

Mr Lee Ying Biu, Andrew*

** Independent non-executive directors*

Subsequent to the balance sheet date, on 22 February 2002, Professor Wang Xuan resigned as a director of the Company.

In accordance with the Company's bye-laws, Mr Yung Richard, Jr. and Mr Yang Lin, Richard will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 16 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 of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

Save as disclosed in note 38 to the financial statements, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 38 to the financial statements, no contracts of significance were entered into or existed during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

Name of director	Number of ordinary shares held and nature of interest	
	Corporate	Personal
Mr Yung Chih Shin, Richard (<i>Note</i>)	87,680,000	—
Mr Cheung Shuen Lung	—	36,890,100
Mr Lei Hon Sang	—	21,890,100
Professor Wei Xin	—	3,956,000
	<u>87,680,000</u>	<u>62,736,200</u>

Subsidiary

Name of director	Subsidiary in which shares are held	Number of shares held	Nature of interest
Mr Yung Chih Shin, Richard (<i>Note</i>)	Management Investment & Technology Company Limited	20,000,000 non-voting deferred shares	Corporate

Note: Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Yung Chih Shin, Richard.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(continued)*

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above and as disclosed below under the heading "Directors' rights to acquire shares or debentures", none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance and recorded in the register required to be maintained pursuant to Section 29 thereof.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in shares" 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 companies, 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

As part of the incentive and rewarding programme, the Company adopted a share option scheme (the "Existing Scheme") on 7 May 2001 in parallel with the other share option scheme (the "Expired Scheme") adopted by the Company on 11 September 1991, under each of which employees of any of the Company and its subsidiaries are entitled to participate. While the Expired Scheme has expired on 10 September 2001 in accordance with its terms but all the other provisions of the Expired Scheme will remain in force and all such options granted under the Expired Scheme will remain valid and exercisable in accordance with the provisions of the Expired Scheme, the Existing Scheme shall remain operative for a period of 10 years from the date of its adoption.

SHARE OPTION SCHEME *(continued)*

Under the Existing Scheme, the total number of shares available for issue in respect of option amounted to 82,056,204 representing 10% of the issued share capital of the Company on 23 April 2002 whereas the maximum number of shares issuable to each eligible participant is limited to 25% of the aggregate number of shares issued and issuable under the Existing Scheme. An offer for share options may be accepted within 40 days from the date of offer, upon payment of a nominal consideration of HK\$1.00. The exercise period of share options granted under the Existing Scheme shall be determined by the directors of the Company when such options are granted, provided that such period shall not exceed a period of 10 years commencing on the date on which the options are deemed to be accepted in accordance with the terms. The subscription price in relation to each option under the Existing Scheme shall be determinable by the directors of the Company, being the higher of either (a) a price being not less than 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date on which the option is offered; or (b) the nominal value of the shares of the Company.

The Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange was however amended in August 2001 and came into effect on 1 September 2001, resulting in certain provisions under the Existing Scheme becoming obsolete. Pursuant to the new Chapter 17 of the Listing Rules of the Stock Exchange, among other things, provisions relating to the maximum number of shares in respect of which options may be granted, the maximum entitlement of each participant and the subscription price were amended. Therefore, the directors of the Company propose to the shareholders at the forthcoming annual general meeting that the Existing Scheme will be terminated and to adopt a new share option scheme to comply with such changes.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	Price of Company's shares		
	At 1 January 2001	Granted during the year	Lapsed during the year	At 31 December 2001			Exercise price of share options** HK\$	At grant date of options*** HK\$	At exercise date of options HK\$
Expired Scheme									
<i>Directors, chief executives and substantial shareholders</i>									
Mr Yung Chih Shin, Richard	3,000,000	—	—	3,000,000	30.1.1997	1.8.1997* to 31.7.2002	0.507	1.02	—
Mr Yung Richard, Jr.	2,400,000	—	—	2,400,000	30.1.1997	1.8.1997* to 31.7.2002	0.507	1.02	—
Mr Yung Richard, Jr.	—	2,700,000	—	2,700,000	18.5.2001	15.12.2001* to 14.12.2006	0.450	0.56	—
Sub-total	<u>5,400,000</u>	<u>2,700,000</u>	<u>—</u>	<u>8,100,000</u>					
<i>Other employees</i>									
In aggregate	2,400,000	—	—	2,400,000	30.1.1997	1.8.1997* to 31.7.2002	0.507	1.02	—
In aggregate	—	3,300,000	—	3,300,000	18.5.2001	15.12.2001* to 14.12.2006	0.450	0.56	—
Sub-total	<u>2,400,000</u>	<u>3,300,000</u>	<u>—</u>	<u>5,700,000</u>					
Total of Expired Scheme	<u><u>7,800,000</u></u>	<u><u>6,000,000</u></u>	<u><u>—</u></u>	<u><u>13,800,000</u></u>					
Existing Scheme									
<i>Directors, chief executives and substantial shareholders</i>									
Mr Cheung Shuen Lung	—	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Mr Lei Hon Sang	—	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Professor Wei Xin	—	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Professor Zou Wei	—	2,000,000	—	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Sub-total	<u>—</u>	<u>8,000,000</u>	<u>—</u>	<u>8,000,000</u>					
<i>Other employees</i>									
In aggregate	—	40,000,000	—	40,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.450	0.56	—
Sub-total	<u>—</u>	<u>40,000,000</u>	<u>—</u>	<u>40,000,000</u>					
Total of Existing Scheme	<u><u>—</u></u>	<u><u>48,000,000</u></u>	<u><u>—</u></u>	<u><u>48,000,000</u></u>					

SHARE OPTION SCHEME *(continued)*

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

Summary details of the Company's share option scheme are also set out in note 31 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 per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees 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, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	<i>Notes</i>	Number of ordinary shares held	Percentage of the Company's share capital
Peking University Founder Group Corporation ("Peking Founder")	1	323,690,000	39.45
Founder Holdings Limited ("FHL")		323,690,000	39.45
Yahoo! Inc.		93,240,000	11.36
Ricwinco	2	87,680,000	10.68
Mr Yung Chih Shin, Richard	2	87,680,000	10.68

Notes:

1. Peking Founder is deemed to be interested in the 323,690,000 shares of the Company under the SDI Ordinance by virtue of its interest in FHL.
2. Ricwinco is beneficially owned by Mr Yung Chih Shin, Richard. The interests disclosed under Mr Yung Chih Shin, Richard represent its deemed interests in the shares of the Company by virtue of its interest in Ricwinco.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS *(continued)*

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" 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.

CONNECTED TRANSACTIONS

Details of the connected transactions are set out in note 38 to the financial statements.

The independent non-executive directors of the Company have reviewed the related party transactions which are set out in note 38 to the financial statements, and have confirmed to the board of directors their opinion that such transactions were conducted in the ordinary course of the Group's business and were fair and reasonable so far as the shareholders of the Company are concerned.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of Stock Exchange, throughout the accounting year covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but 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 bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code. 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

Cheung Shuen Lung

Chairman

Hong Kong
23 April 2002