

Report of the Directors

The board of directors (the "Directors") of the Company herein 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 the subsidiaries, associates and joint ventures are set out in notes 17, 18 and 19 to the financial statements, respectively. There were no other changes in the Group's principal activities which consisted of property investment, development and trading, ophthalmology treatments, investment holding, the provision of financial services and securities trading.

During the year, the Group acquired new subsidiaries, the principal activities of which are the manufacture and sale of high-tech computers and servers, with its own brand name and operating systems.

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 of the Group at that date are set out in the financial statements on pages 32 to 97.

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2001.

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MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, the Group's purchases from the five largest suppliers accounted for approximately 59% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 27% of the Group's total purchases. The Group's sales to the five largest customers accounted for approximately 57% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 50% of the Group's total turnover.

None of the directors of the Company, their associates, nor any shareholder, 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 and suppliers.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 12 to the financial statements.

PROPERTY UNDER DEVELOPMENT AND COMPLETED PROPERTIES HELD FOR SALE

Details of the property under development and completed properties held for sale of the Group are set out in notes 14 and 22, respectively to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

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.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 29 to the financial statements.

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DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had no reserves available for cash distribution and/or distribution in specie, except that under the laws of Bermuda, the Company's share premium account may be distributed in the form of fully paid bonus shares and the Company's contributed surplus may be distributed under certain circumstances.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Li Heihu

Mr. Chen Chao

Mr. Gong Hanbing

Mr. Li Jingqi

Independent non-executive directors

Mr. Lee Kuo Ching, Stewart

Mr. Loong Ping Kwan

Mr. Poon Chiu Kwok (appointed on 15 October 2001)

In accordance with the Company's bye-laws 86(2) and 87, Messrs. Poon Chiu Kwok and Chen Chao will retire and, being eligible, will offer themselves for re-election at the forthcoming general meeting.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 19 to 21.

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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 CONTRACTS

Save as disclosed in note 3 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any material contract to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SECURITIES

The directors' interests in the share options of the Company are disclosed in the sections "Directors' rights to acquire shares or debentures" and "Share option scheme" below.

Save as disclosed in those sections, at 31 December 2001, none of the Company's directors or their associates had any personal, family, corporate or other beneficial interest in the securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section "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 or any other body corporate 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, or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

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SHARE OPTION SCHEME

The Company operates a 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 any employee or director of the Company or its subsidiaries. The Scheme became effective on 17 November 2000 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount not exceeding, upon their exercise, 10% of the shares of the Company in issue from time to time. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 350,659,900 (2000: 900,000), which represented approximately 5.5% (2000: 0.02%) of the Company's shares in issue at that date.

No eligible participant of the Scheme shall be granted an aggregate number of share options which exceed 25% of the aggregate number of shares issued and issuable under the Scheme.

The offer of a grant of share options under the Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal cash consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and shall not exceed a period commencing on the expiry of one week after the date on which the option is accepted and ends on 16 November 2010.

Under the Scheme, the exercise price of the share options is determinable by the directors, but may not be less than 80% of the average closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the offer or the nominal value of the Company's shares, whichever is higher.

Pursuant to the amendments to Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange (the "New Rules"), any options granted after 1 September 2001 must comply with the provisions of the New Rules. In the circumstances, if the Company wishes to grant options to its directors or other eligible participants in future, a new share option scheme in compliance with the New Rules is required to be approved and adopted by the shareholders of the Company in general meeting. A new share option scheme in compliance with the New Rules is proposed to be adopted at the forthcoming annual general meeting.

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SHARE OPTION SCHEME (Cont'd)

The following share options were outstanding during the year:

Name or category of participant	At 1 January 2001	Granted during the year	Number of share options			At 31 December 2001	Date of grant of share options*	Exercise period of share options	Price of Company's shares***			
			Exercised during the year	Lapsed during the year	Cancelled during the year				Exercise price of share options** HK\$	At grant date of options HK\$	At exercise date of options HK\$	
Directors												
Mr. Li Heihu	—	60,000,000	—	—	—	60,000,000	9-3-01	21-3-01 to 16-11-10	0.1945	0.205	N/A	
Mr. Chen Chao	—	30,000,000	—	—	—	30,000,000	9-3-01	21-3-01 to 16-11-10	0.1945	0.205	N/A	
Mr. Li Jingqi	—	13,500,000	—	—	—	13,500,000	9-3-01	21-3-01 to 16-11-10	0.1945	0.205	N/A	
Mr. Gong Hanbing	—	30,000,000	—	—	—	30,000,000	9-3-01	21-3-01 to 16-11-10	0.1945	0.205	N/A	
	—	2,580,000	—	—	—	2,580,000	23-7-01	1-1-02 to 31-12-06	0.1945	0.214	N/A	
	—	2,580,000	—	—	—	2,580,000	23-7-01	1-7-02 to 30-6-07	0.1945	0.214	N/A	
Mr. Lee Kuo Ching, Stewart	900,000#	—	—	—	—	900,000#	7-7-97	15-7-97 to 14-7-07	0.38	0.5	N/A	
	900,000	138,660,000	—	—	—	139,560,000						
Other employees												
In aggregate	—	15,000,000	—	—	—	15,000,000	9-3-01	20-3-01 to 16-11-10	0.1945	0.205	N/A	
	—	1,500,000	—	—	—	1,500,000	9-3-01	22-3-01 to 16-11-10	0.1945	0.205	N/A	
	—	25,000,000	—	—	—	25,000,000	23-7-01	2-8-01 to 26-7-06	0.1945	0.214	N/A	
	—	25,000,000	—	—	—	25,000,000	23-7-01	4-8-01 to 28-7-06	0.1945	0.214	N/A	
	—	48,862,800	—	—	—	48,862,800	23-7-01	15-8-01 to 8-8-06	0.1945	0.214	N/A	
	—	47,118,550	—	—	—	47,118,550	23-7-01	1-1-02 to 31-12-06	0.1945	0.214	N/A	
	—	47,118,550	—	—	—	47,118,550	23-7-01	1-7-02 to 30-6-07	0.1945	0.214	N/A	
	—	750,000	—	—	—	750,000	13-8-01	1-1-02 to 31-12-06	0.1945	0.191	N/A	
	—	750,000	—	—	—	750,000	13-8-01	1-7-02 to 30-6-07	0.1945	0.191	N/A	
	—	211,099,900	—	—	—	211,099,900						
	900,000	349,759,900	—	—	—	350,659,900						

The options were granted to Mr. Lee Kuo Ching, Stewart under the general mandate granted by the shareholders to the directors at the annual general meeting of the Company held on 10 June 1997. The grant of such options constituted a connected transaction of the Company. Details of the grant were announced to the public according to the Listing Rules on 7 July 1997.

* 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's closing price on the trading day immediately prior to the date of the grant of the share options.

Summary details of the Scheme are also set out in note 28 to the financial statements.

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SHARE OPTION SCHEME (Cont'd)

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 share 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. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding share 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 in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following substantial shareholders 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, as being interested in 10% or more of the share capital of the Company:

Name	Number of shares held		Percentage in total number of issued shares
	Direct interest	Indirect interest	
Shenzhen Investment Holding Corporation ("SIHC")	160,167,856	1,346,450,260	23.63%
Ultrarich International Limited ("UIL")	—	1,346,450,260	21.12%
Shenzhen International Holdings Limited ("SIHL")	—	1,346,450,260	21.12%
New Vision Limited ("NVL")	—	1,346,450,260	21.12%
Great Mind Holdings Group Limited ("GML")	1,346,450,260	—	21.12%

Note: In accordance with the provisions of the SDI Ordinance, the interest of GML in the 1,346,450,260 shares of the Company is also attributed to NVL, SIHL, UIL and SIHC on the bases that:

- GML is the wholly-owned subsidiary of NVL;
- NVL is the wholly-owned subsidiary of SIHL;
- UIL controls more than one-third of the voting power at SIHL's general meetings; and
- UIL is the wholly-owned subsidiary of SIHC.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

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COMPETITION AND CONFLICTS OF INTERESTS

None of the directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions of the Group are set out in note 3 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

CODE OF BEST PRACTICE

The Board believes that the Group has complied at any time throughout the accounting period with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors were not appointed for a specific term as set out in Appendix 14 of the Listing Rules but are subject to retirement by rotation and re-election at annual general meetings in accordance with the bye-laws of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company comprises one executive director and three independent non-executive directors which include Mr. Li Jingqi, Mr. Lee Kuo Ching, Stewart, Mr. Loong Ping Kwan and Mr. Poon Chiu Kwok respectively. The Audit Committee has discussed the accounting policies and basis adopted, financial reporting and internal controls process of the Group and has reviewed the interim and annual financial statements.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

Chen Chao

Vice Chairman

Hong Kong, 26 April 2002