

Report of Directors

The board of directors of the Company (the "Board") presents this report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries for the year ended 31st December, 2001 are the operating of the indoor family entertainment games centres (the "entertainment centres") as well as the manufacturing and selling of automobile axles in the People's Republic of China (the "PRC").

TURNOVER AND CONTRIBUTION BY ACTIVITY AND LOCATION

The turnover and operating loss before tax of the Group by location and by nature of business for the year ended 31st December, 2001 are as follows:

	Turnover HK\$'000	Contribution to operating loss HK\$'000
Analysis by location:		
Hong Kong	–	(35,426)
PRC	14,263	(3,314)
	<hr/>	<hr/>
	14,263	(38,740)
Unallocated items	–	3,238
	<hr/>	<hr/>
	14,263	(35,502)
	<hr/> <hr/>	<hr/> <hr/>
Analysis by nature of business:		
Self-operated game centres	14,233	(1,273)
Sales of automobile axles	30	(2,041)
Investment holding	–	(35,426)
Unallocated items	–	3,238
	<hr/>	<hr/>
	14,263	(35,502)
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FINANCIAL RESULTS

The results for the Group for the year ended 31st December, 2001, are set out in the financial statements on page 22.

MANAGEMENT DISCUSSIONS AND ANALYSIS

The Group has recorded an audited consolidated turnover and loss attributable to shareholders of approximately HK\$14,263,000 and HK\$35,110,000 respectively for the year ended 31st December, 2001. Compared with the results for the year ended 31st December, 2000, turnover has been decreased by approximately 55.4% from HK\$32,002,000 to HK\$14,263,000. The loss attributable to shareholders has been increased by approximately 107.6% from HK\$16,912,000 to HK\$35,110,000. The decrease in turnover was attributable to the closure of two entertainment centres and the suspension of production of Shenyang Liao Hua Automotive Axles Company Ltd., the joint venture.

Despite the unfavourable operating results, the Group's liquidity and financial resource remained strong. The Group had cash and bank balances of approximately HK\$190 million (31st December, 2000: HK\$201 million) together with a mortgage loan of approximately HK\$1.86 million (31st December, 2000: HK\$2.17 million).

The Group will continue to reinforce its strong financial position so that the Company is fully prepared to seize new and attractive investment opportunities whenever the appropriate opportunities emerge. The Board believes that prudent financial management will maintain a balance between growth and risk control. The Board is extremely cautious in determining whether the investment projects will create value for shareholders and refrain from deploying capital resources in such manner where the levels of risk are out of proportion with projected returns to shareholders. Apart from the collaboration with the Trustee of Columbia University in the City of New York, no specific projects have been identified during the year ended 31st December, 2001. The Group encourages its subsidiaries to be independent and self-sufficient in funding their businesses from internally generated cash flows.

The year ahead will continue to be challenging given the economic uncertainties. It is unlikely that there will any significant improvement in the operating conditions of the Group in the first half of 2002. There are early signs that U.S. economy may be on a recovery track. The recovery should have favourable implications on global economy in the second half of 2002. The Board believes that once the economy takes hold, it will result a sharp rebound in the demand of goods and services. It is expected that China's accession to the World Trade Organization will promote further economic development and enhance the vitality of the PRC's economy substantially. The Group can benefit from this favourable trend if it can strengthen its business relationship through strategic alliance with well-known local business enterprises in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

The cash flow position of the Group for the year ended 31st December, 2001 is set out and analysed on pages 25 to 26 to the financial statements.

Report of Directors

DIVIDENDS

The Board does not recommend the payment of a final dividend for year ended 31st December, 2001(2000: Nil), and the Company did not pay an interim dividend during the year under review.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 58.

RESERVES

Movements in the reserves of the Group and the Company for the year ended 31st December, 2001 are set out in note 21 to the financial statements.

FIXED ASSETS

The movements of fixed assets of the Group for the year ended 31st December, 2001 are set out in note 12 to the financial statements.

SHARE CAPITAL

The details of issued share capital for the year ended 31st December, 2001 are set out in note 19 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December, 2001 are set out in note 13 to the financial statements.

RETIREMENT BENEFITS SCHEMES

Particulars of retirement benefits schemes are set out in note 26 to the financial statements.

Report of Directors

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2001 and up to the date of this report are:

Executive directors:

Mr. Yung Yeung (*Chairman*)
Mr. Siu On Ng (*Deputy Chairman*)
Mr. Jun Li (*Chief Executive Officer*)
Mr. Chunhua Huang (*Chief Financial Officer*)
Mr. Keung So
Mr. Xing Hong
Mr. Maozeng Yang
Mr. To Ho
Mr. Tung Sun

Independent non-executive directors:

Mr. Min Li Yi
Madam Chu Qing Yao

Messrs. Siu On Ng, Keung So and Min Li Yi will retire by rotation in accordance with clause 87(1) and (2) of the bye-laws of the Company at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December, 2001, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Cap.396) of the laws of Hong Kong (the "SDI Ordinance") showed that each of the following persons has an interest of 10 per cent or more in the share capital of the Company:

Name	Note	Number of shares beneficially held	Percent. of shareholding
Pure Shine Limited ("Pure Shine")		162,951,000	12.90
Brilliance China Automotive Holdings Limited ("CBA")	1	162,951,000	12.90
Daiweldo Group Limited ("DWD")		630,304,400	49.88
Daiweldo Foundation Limited	2	630,304,400	49.88

Report of Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (Continued)

Notes:

1. Pure Shine is a wholly-owned subsidiary of CBA. Therefore CBA, by virtue of its interest in Pure Shine, is deemed to be interested in those shares which Pure Shine is interested. The controlling shareholder of CBA is the Chinese Financial Education Development Foundation, a PRC non-governmental non-profit making organization.
2. DWD is a wholly-owned subsidiary of Daiweldo Foundation Limited. Therefore Daiweldo Foundation Limited, by virtue of its interest in DWD, is deemed to be interested in those shares which DWD is interested.

Save as disclosed above, no other party was recorded in the register required to be kept by the SDI Ordinance as having an interest of 10% or more of the shares of the Company as at 31st December, 2001.

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December, 2001, the interests of the directors, chief executives and their associates in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which require notification to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Section 28 of the SDI Ordinance (including interests which are taken or deemed to have under Section 31 or Part 1 of the Schedule of the SDI Ordinance) or which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered into the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, are as follows:

Name	Note	Nature of interests	Number of shares held
Yung Yeung	1	Corporate	630,304,400

Note:

1. Daiweldo Foundation Limited is owned as to 80% by Mr. Yung Yeung and as to 5% by each of Mr. Siu On Ng, Mr. Keung So, Mr. Xing Hong and Mr. To Ho, all of whom are directors of the Company. The aforementioned 630,304,400 shares are registered in the name of DWD, which is a wholly-owned subsidiary of Daiweldo Foundation Limited. Up to the date of this report, DWD is interested in 630,304,400 shares of the Company, representing 49.88% of the issued share capital of the Company. Therefore Mr. Yung Yeung, by virtue of his interest in Daiweldo Foundation Limited, is deemed to be interested in those shares which DWD is interested.

DIRECTORS' RIGHTS TO SUBSCRIBE FOR SHARES

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year ended 31st December 2001 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

On 15th March, 1995, a share option scheme was adopted by the shareholders of the Company (the "Scheme"), under which the Board may at their discretion grant options (the "Share Options") to the employees of the Group to subscribe for shares of HK\$0.10 each in the share capital of the Company (the "Shares"), subject to the terms and conditions stipulated therein.

The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include executive directors and employees of the Company and its wholly-owned subsidiaries. Unless otherwise terminated or amended, the Scheme will remain in force for 10 years from the date of adoption. Pursuant to the Scheme, the Board shall be entitled at any time within 10 years or such period as the Board may from time to time determine subject to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") applicable for the time being, to offer the grant of the Share Options to any participant as the Board may at their absolute discretion select. The maximum number of Shares in respect of which Share Options may be granted under the Scheme (including Share Options exercised and Share Options then outstanding) shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of the Shares in respect of which the Share Options may be granted to any grantee shall not exceed 25% of the maximum aggregate number of the Shares in the capital of the Company in respect of which the Share Options may be granted at that time under the Scheme, which includes the total number of the Shares already issued or issuable to him under all the Share Options previously granted to him and the said Share Option, or such other percentage as the Board may from time to time determine subject to the Listing Rules applicable for the time being. The offer of the grant of the Share Options shall be accepted within 28 days from the date of offer upon payment of a nominal consideration of HK\$1.00 by the grantee. As the Board did not make any specification to the minimum period for which the Share Options had to be held before it could be exercised, Share Options might be exercised by the grantee at any time after the Share Options were granted and accepted. The subscription price of the Shares in respect of the Share Options were granted shall be 80% of the average of the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the 5 business days immediately preceding the date of the offer on which there were dealings in the Shares on the Stock Exchange or such amount as the Board may from time to time determine subject to the Listing Rules applicable for the time being or the nominal amount of the Share (whichever is the highest). The remaining life of the Scheme is about 3 years.

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SHARE OPTION SCHEME (Continued)

The Board had granted Share Options to subscribe for 40,000,000 and 86,300,000 Shares to certain directors and employees of the Company on 16th February and 2nd November, 2000, respectively. The following Share Options were outstanding under the Scheme during the year:–

Number of the Share Options granted

Name or Category of Participant	At 1st January 2001	Granted during the year	Lapsed during the year	At 31st December, 2001	Date of Grant	Exercise Price	Exercise Period	Closing price of the Company's shares
Directors								
Yung Yeung	10,000,000	–	–	10,000,000	Note 1	Note 1	Note 1	Note 3
	21,570,000	–	–	21,570,000	Note 2	Note 2	Note 2	Note 4
	<u>31,570,000</u>			<u>31,570,000</u>				
Siu On Ng	8,000,000	–	–	8,000,000	Note 1	Note 1	Note 1	Note 3
	11,130,000	–	–	11,130,000	Note 2	Note 2	Note 2	Note 4
	<u>19,130,000</u>			<u>19,130,000</u>				
Jun Li	<u>5,400,000</u>	–	–	<u>5,400,000</u>	Note 2	Note 2	Note 2	Note 4
Chunhua Huang	<u>5,400,000</u>	–	–	<u>5,400,000</u>	Note 2	Note 2	Note 2	Note 4
Keung So	4,000,000	–	–	4,000,000	Note 1	Note 1	Note 1	Note 3
	5,400,000	–	–	5,400,000	Note 2	Note 2	Note 2	Note 4
	<u>9,400,000</u>			<u>9,400,000</u>				
Xing Hong	4,000,000	–	–	4,000,000	Note 1	Note 1	Note 1	Note 3
	5,400,000	–	–	5,400,000	Note 2	Note 2	Note 2	Note 4
	<u>9,400,000</u>			<u>9,400,000</u>				
To Ho	4,000,000	–	–	4,000,000	Note 1	Note 1	Note 1	Note 3
	5,400,000	–	–	5,400,000	Note 2	Note 2	Note 2	Note 4
	<u>9,400,000</u>			<u>9,400,000</u>				
Maozeng Yang	4,000,000	–	–	4,000,000	Note 1	Note 1	Note 1	Note 3
	5,400,000	–	–	5,400,000	Note 2	Note 2	Note 2	Note 4
	<u>9,400,000</u>			<u>9,400,000</u>				
Tung Sun	<u>5,400,000</u>	–	–	<u>5,400,000</u>	Note 2	Note 2	Note 2	Note 4
Employees								
(in aggregate)	6,000,000	–	–	6,000,000	Note 1	Note 1	Note 1	Note 3
	15,800,000	–	–	15,800,000	Note 2	Note 2	Note 2	Note 4
	<u>21,800,000</u>			<u>21,800,000</u>				

SHARE OPTION SCHEME (Continued)

Number of the Share Options granted (Continued)

Notes:

1. The Share Options granted on 16th February, 2000 are exercisable at the subscription price of HK\$0.69 per Share at any time during the period of 10 years from 16th February, 2000 to 15th February, 2010.
2. The Share Options granted on 2nd November, 2000 are exercisable at the subscription price of HK\$0.382 per Share at any time during the period of 10 years from 2nd November, 2000 to 1st November, 2010.
3. The closing price of the Shares immediately before the date on which an aggregate of 40,000,000 Share Options were granted (i.e. 15th February, 2000) was HK\$1.85.
4. The closing price of the Shares immediately before the date on which an aggregate of 86,300,000 Share Options were granted (i.e. 1st November, 2000) was HK\$0.455.

Up to the date of this report, none of the Share Options have been exercised. Accordingly, the weighted average closing price of the Shares immediately before the dates on which the Share Options were exercised are not disclosed herein.

On 1st September, 2001, Chapter 17 of the Listing Rules was amended, whereby if the Company intends to continue to grant the Share Options under the Scheme on or after 1st September, 2001, the Company must strictly comply with the requirements set out therein.

The Scheme may not comply with certain requirements of Chapter 17 of the Listing Rules. The Board does not intend to grant further Share Options under the Scheme until it has been duly amended in compliance with all the requirements of Chapter 17 of the Listing Rules. However, all the outstanding Share Options granted under the Scheme prior to 1st September, 2001 will remain in full force and effect until the expiry of the exercise periods.

The Board does not consider it appropriate to disclose a theoretical value of the Share Options granted to the directors and employees in the previous years because a number of factors crucial for valuation cannot be determined; such factors include the exercise period and the conditions that a share option is subject to. Accordingly, any valuation of the Share Options based on the various speculative assumptions would not be meaningful and could be misleading to the shareholders.

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DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or associated companies was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

The Company entered into service contracts with Mr. Jun Li and Mr. Chunhua Huang, directors, respectively, for their offices of Chief Executive Officer and Chief Financial Officer, for a period of one year from 1st August, 2000 (the "Service Contracts"). The Service Contracts shall continue thereafter until terminated by either party by giving the other party one month's written notice.

On 8th January, 2002, the terms of the Service Contracts were amended to extend their terms of employment to 31st December, 2004 and will be thereafter automatically extended unless further notice by either party to terminate the Service Contracts. Unless certain conditions materialized, neither Mr. Jun Li and Mr. Chunhua Huang could resign nor the Company could dismiss them before 31st December, 2004. Should the Company dismiss Mr. Jun Li and Mr. Chunhua Huang otherwise than in accordance with the terms of the Service Contracts, the Company would pay them an amount equivalent to their salaries of the unserved period.

Save as disclosed above, none of the directors of the Company for re-election at the forthcoming annual general meeting has proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring, or determinable by the employer within one year without payment of compensation, other than statutory compensations).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

ANALYSIS OF BORROWINGS AND INTEREST CAPITALISED

The particulars of the Group's bank borrowings as at the end of the year are set out in note 22 to the financial statements.

No interest was capitalised by the Group during the year.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the Group's turnover attributable to the five largest customers is less than 30%.

The percentage of the Group's purchases attributable to the major suppliers for the year are as follows:-

Purchases

The largest supplier	31.1%
The five largest suppliers in aggregate	65.6%

As far as the Board is aware, no directors of the Company or any of its subsidiaries, their associates or any shareholders of the Company (who to the Board's knowledge is interested in or owns more than 5 per cent. of the Company's share capital) has any shareholding in the suppliers or customers referred to above.

CORPORATE GOVERNANCE

The Company complies with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code"), except that the independent non-executive directors were not appointed for specific terms but appointed to their offices for such terms and subject to retirement in accordance with clause 87 of the bye-laws of the Company.

In compliance with the Code, the Company has established an Audit Committee and has adopted the terms of reference governing the authority and duties of the Audit Committee.

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AUDITORS

The financial statements have been audited by Messrs. Arthur Andersen & Co who will retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the Annual General Meeting to re-appoint Messrs. Arthur Andersen & Co (or the company or accounting firm formed after the merger with PricewaterhouseCoopers) as auditors of the Company.

On behalf of the Board

Jun Li

Director

25th April, 2002