



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 activity of the Company is investment holding. The Group's principal activities have not changed during the year and consisted of the manufacture and sale of telephone cords and accessories, power cords, adaptors and electronic products, printed circuit boards, high precision components for computers and the provision of freight forwarding and delivery services.

SEGMENT INFORMATION

An analysis of the Group's turnover and operating results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 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 24 to 78.

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

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and adjusted for the effects of the retrospective changes in accounting policy for dividends, goodwill and negative goodwill, details of which are set out in notes 2, 3, 15, 17 and 30 to the financial statements, is set out below.

	2001 HK\$'000	Year ended 31 December			
		2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)	1997 HK\$'000 (Restated)
RESULTS					
TURNOVER	<u>516,310</u>	<u>686,604</u>	<u>754,426</u>	<u>649,513</u>	<u>673,892</u>
OPERATING PROFIT/(LOSS)	<u>(48,144)</u>	13,037	(7,592)	(5,724)	8,263
Loss on disposal of a subsidiary	<u>(19,620)</u>	–	–	–	–
Provision for impairment in value of interest in a jointly controlled entity	<u>(2,000)</u>	(25,892)	–	–	–
Provision for impairment in value of goodwill on acquisition of interest in a jointly controlled entity	–	(17,931)	–	–	–
Share of profits and losses of associates	–	–	–	–	706
Share of profits and losses of jointly controlled entities	<u>10,301</u>	<u>18,063</u>	<u>30,675</u>	<u>18,993</u>	<u>11,377</u>
PROFIT/(LOSS) BEFORE TAX	<u>(59,463)</u>	(12,723)	23,083	13,269	20,346
Tax	<u>(1,502)</u>	<u>527</u>	<u>(1,900)</u>	<u>1,911</u>	<u>1,087</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>(60,965)</u>	(12,196)	21,183	15,180	21,433
Minority interests	<u>(1,742)</u>	<u>(6,499)</u>	<u>(2,980)</u>	<u>(4,334)</u>	<u>(920)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(62,707)</u>	<u>(18,695)</u>	<u>18,203</u>	<u>10,846</u>	<u>20,513</u>



SUMMARY OF FINANCIAL INFORMATION (continued)

	2001 HK\$'000	As at 31 December			
		2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)	1997 HK\$'000 (Restated)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	615,145	757,095	803,081	796,414	866,841
TOTAL LIABILITIES	(105,846)	(164,946)	(197,193)	(211,973)	(289,295)
MINORITY INTERESTS	(9,756)	(39,778)	(33,279)	(31,199)	(25,118)
	<u>499,543</u>	<u>552,371</u>	<u>572,609</u>	<u>553,242</u>	<u>552,428</u>

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group are set out in note 13 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 29 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.



Report of the Directors

DIRECTORS

The directors of the Company during the year were as follows:

Cao Zhong	<i>(appointed on 23 November 2001)</i>
Yu Jian	
Xu Xianghua	
Leung Shun Sang, Tony	
Tse Chun Sing	
Chan Wah Tip, Michael*	
Liu Wei*	
Choy Hok Man, Constance*	
Chang Tai Tek	<i>(retired on 15 June 2001)</i>
Su Genqiang	<i>(resigned on 23 November 2001)</i>

* Independent non-executive directors

In accordance with clauses 94 and 103(A) of the Company's articles of association, Mr. Cao Zhong, Mr. Tse Chun Sing and Mr. Chan Wah Tip, Michael will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The outstanding share options granted in favour of the directors at the beginning and the end of the financial year, which were also recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Date of grant	No. of share options to subscribe for shares in the Company	
		At beginning of year	At end of year
Tse Chun Sing	5 January 2000	3,800,000	–

The above share options were granted pursuant to the Company's share option scheme adopted on 30 June 1998 as detailed below under the heading "Share option scheme" and were exercisable at a subscription price of HK\$0.418 per share during the period from the date of grant to 31 December 2001. Mr. Tse Chun Sing paid HK\$1 to the Company as cash consideration for the share options granted to him.

During the year, a total of 1,000,000 share options were exercised by Mr. Tse Chun Sing to subscribe for 1,000,000 shares of HK\$0.25 each in the Company at a price of HK\$0.418 per share, and the remaining 2,800,000 share options lapsed at the close of business on 31 December 2001.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

On 30 June 1998, a share option scheme (the "Scheme") was adopted by the shareholders of the Company. Under the Scheme, the directors might, at their discretion, invite employees of the Company and its subsidiaries, including executive directors, to take up options to subscribe for shares of the Company.



SHARE OPTION SCHEME (continued)

A summary of the Scheme is set out as follows:

- (1) the purpose of the Scheme is to attract, retain and motivate high-calibre employees;
- (2) the participants include employees and executive directors of the Company or any of its subsidiaries;
- (3) the total number of shares available for issue under the Scheme is 79,627,328 which represents approximately 9.92% of the issued share capital of the Company at the date of this report;
- (4) the maximum entitlement of each participant under the Scheme shall not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme;
- (5) the period during which an option may be exercised will be determined by the directors of the Company in their absolute discretion, save that no option may be exercised later than 10 years after it has been accepted by the grantee;
- (6) the minimum period for which an option must be held before it can be exercised will be determined by the directors of the Company in their absolute discretion;
- (7) HK\$1 is payable by the grantee upon acceptance of the grant of an option;
- (8) the exercise price will be determined by the directors at their discretion and shall be the higher of (i) the nominal value of a share of the Company; and (ii) a price of not less than 80% of the average closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of grant; and
- (9) the Scheme will remain in force until 22 December 2008.

Upon the introduction of new requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on share option schemes effective from 1 September 2001, the Company must comply with the new requirements of Chapter 17 of the Listing Rules when granting options under the Scheme. The directors intend to adopt a new share option scheme which will be in conformity with Chapter 17 of the Listing Rules and to terminate the Scheme in due course.



SHARE OPTION SCHEME (continued)

Details of the share options, which were exercised or lapsed pursuant to the Scheme during the year ended 31 December 2001 are as follows:

Date of acceptance of offer	Exercise price per share	Weighted average closing price per share immediately before exercise date(s) of share options	Exercise period	Number of share options			At end of year
				At beginning of year	Exercised during the year	Lapsed during the year	
3 January 2000	HK\$0.418	HK\$0.550	The date of grant to 31 December 2001	4,600,000	(800,000)	(3,800,000)	-
4 January 2000	HK\$0.418	HK\$0.528	The date of grant to 31 December 2001	500,000	(400,000)	(100,000)	-
5 January 2000	HK\$0.418	HK\$0.552	The date of grant to 31 December 2001	4,600,000	(1,400,000)	(3,200,000)	-
6 January 2000	HK\$0.418	HK\$0.531	The date of grant to 31 December 2001	1,650,000	(1,100,000)	(550,000)	-
7 January 2000	HK\$0.418	HK\$0.580	The date of grant to 31 December 2001	1,450,000	(150,000)	(1,300,000)	-
10 January 2000	HK\$0.418	HK\$0.550	The date of grant to 31 December 2001	500,000	(500,000)	-	-
12 January 2000	HK\$0.418	-	The date of grant to 31 December 2001	300,000	-	(300,000)	-
				13,600,000	(4,350,000)	(9,250,000)	-

Note: Included in the above share options are 3,800,000 share options held by a director of the Company during the year. The remaining 9,800,000 share options were held by the employees of the Group.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

At the balance sheet date, none of the directors, chief executive or their respective 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 recorded in the register required to be kept under Section 29 of the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial 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.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Notes	Number of ordinary shares held
Shougang Holding (Hong Kong) Limited ("Shougang HK")	1	371,649,069
Shougang Concord International Enterprises Company Limited ("Shougang International")	1	371,649,069
Shougang Concord Grand (Group) Limited ("Shougang Grand")	1	371,649,069
SCG Investment (B.V.I.) Limited ("SCGI")	2	371,649,069
Grand Phoenix Limited ("Grand Phoenix")	3	371,649,069
Upper Nice Assets Ltd. ("Upper Nice")	3	240,342,569
Jeckman Holdings Limited ("Jeckman")	3	131,306,500

Notes:

- Shougang HK is the controlling shareholder of Shougang International and the interests held by Shougang International are included in the interests held by Shougang HK. Shougang International is the holding company of Shougang Grand and the interests held by Shougang Grand are included in the interests held by Shougang International. Shougang Grand was deemed to be interested in the shares held by SCGI by virtue of its 100% shareholding in SCGI.
- SCGI is a wholly-owned subsidiary of Shougang Grand and its interests are included in the interests held by Shougang Grand. SCGI was deemed to be interested in the shares held by Grand Phoenix by virtue of its 100% shareholding in Grand Phoenix.
- Grand Phoenix is a wholly-owned subsidiary of SCGI and its interests are included in the interests held by SCGI. Grand Phoenix was deemed to be interested in the shares held by Upper Nice and Jeckman by virtue of its 100% shareholding in Upper Nice and Jeckman.



DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, no director is recorded as having interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company did not have any reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

The Company's capital reserve represents a non-distributable reserve.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers accounted for less than 30% of the total sales for the year and purchases from the five largest suppliers accounted for less than 30% of the total purchases for the year.

CONNECTED TRANSACTION

As set out in the Company's press announcement dated 29 December 2000, a tenancy agreement was renewed on the same date whereby Good News Investment Limited leased to Santai Corporate Services Limited, a wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2001 at a monthly rental of HK\$85,000, the workshops 4, 5, 8, 9 and 15 to 18 on the 10th Floor of Honour Industrial Centre, 6 Sun Yip Street, Chai Wan, Hong Kong with an aggregate gross floor area of approximately 15,335 square feet. Good News Investment Limited is an indirectly wholly-owned subsidiary of Shougang International which is the holding company of Shougang Grand. Shougang Grand is in turn a controlling shareholder of the Company. Accordingly, the entering into of the said tenancy agreement constituted a connected transaction of the Company under the Listing Rules. Details of the transaction are also set out in note 36 (iii) to the financial statements under the heading of "Related party transactions".

Save as aforesaid and as far as the transactions which took place in the year are concerned, transactions as set out in note 36 (ii) to the financial statements under the heading of "Related party transactions" were connected transactions which were exempted from any disclosure or shareholders' approval requirements under the Listing Rules. The remaining transactions as set out under the heading of "Related party transactions" did not constitute connected transactions.



Report of the Directors

DONATIONS

No charitable donations were made during the year.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period covered by this annual report, except in relation to guideline 7, as the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. The Audit Committee comprises three independent non-executive directors, namely Mr. Chan Wah Tip, Michael, Mr. Liu Wei and Ms. Choy Hok Man, Constance. Its principal duties include the review of the Company's financial reporting process, internal controls and the results of the Group. A meeting of the Audit Committee was held on 11 April 2002 for, amongst other things, reviewing the final results of the Group for the financial year ended 31 December 2001.

AUDITORS

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

BY ORDER OF THE BOARD

Cao Zhong

Chairman

Hong Kong, 22 April 2002