

The directors have pleasure in submitting their report together with the audited accounts for the year ended 31 December 2001.

## Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out on pages 37 to 38.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

## Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 18.

The directors do not recommend the payment of a dividend.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the accounts.

## Fixed Assets

Details of the movements in fixed assets during the year are set out in note 12 to the accounts.

## Results, Assets and Liabilities

The following table summarises the consolidated results, assets and liabilities of the Group for the last five financial years:

	<b>2001</b>	2000	1999	1998	1997
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>113,132</b>	100,600	147,079	190,732	339,916
(Loss)/profit attributable to shareholders	<b>(21,062)</b>	28,464	(24,887)	(164,308)	(125,702)
Total assets	<b>89,842</b>	70,210	93,747	112,657	321,567
Total liabilities	<b>(65,683)</b>	(42,246)	(245,681)	(242,704)	(306,206)
Net assets/(liabilities)	<b>24,159</b>	27,964	(151,934)	(130,047)	15,361

# Report of the Directors

## Share Capital, Share Options and Warrants

Details of the movements in the share capital and share options of the Company are set out in notes 26 and 27 to the accounts.

Particulars of the Company's warrants outstanding as at 31 December 2001 are set out in note 28 to the accounts.

## Distributable Reserves

At 31 December 2001, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus of approximately HK\$69,332,000 is currently not available for distribution. The Company's share premium account with a balance of approximately HK\$179,543,000 may be distributed in the form of fully paid bonus shares.

## Directors

The directors who held office during the year and up to the date of this report were:

### *Executive directors*

Mr. CHEUNG Lik Chung	
Mr. YUNG Kin Hang	
Mr. YAU Yat Bui	
Mr. WONG Wing Shing, Wilson	
Mr. CHU Yuk Kuen	
Ms. WU Yun Yu	(appointed on 18 June 2001)
Mr. KONG Chiu San, Raymond	(resigned on 27 April 2001)
Mr. ZHANG David	(resigned on 18 June 2001)

### *Independent non-executive directors*

Mr. CHAN Nim Leung, Leon	
Ms. LO Miu Sheung, Betty	
Mr. CHIU Kin	(appointed on 18 April 2002)
Mr. LO Kee Wai	(appointed on 8 March 2001 and resigned on 12 March 2002)
Mr. CHAN Yuk Sing, Freeman	(resigned on 23 February 2001)

In accordance with Article 86(2) of the Company's Bye-laws, Messrs. WU Yun Yu and CHIU Kin shall retire at the forthcoming annual general meeting and being eligible, shall offer themselves for re-election at that meeting.

In accordance with Article 87(1) of the Company's Bye-laws, Messrs. WONG Wing Shing, Wilson and YAU Yat Bui shall retire by rotation at the forthcoming annual general meeting and being eligible, shall offer themselves for re-election at that meeting.

## Directors' Service Contracts

Messrs. WONG Wing Shing, Wilson and CHU Yuk Kuen have entered into directors' service contracts with the Company for a fixed term of three years commencing on 18 February 2000 subject to termination by their giving to the Company one month's notice in writing or payment in lieu.

Save as disclosed above, none of the directors who is proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Biographical Details of Directors and Senior Management

The biographical details of the directors and senior management of the Company are set out as follows:-

### *Executive directors*

Mr. CHEUNG Lik Chung, aged 46, is the Chairman of the Company. Mr. CHEUNG holds investment portfolios comprised of pharmaceutical companies, real estate properties and multi-national trade in various countries including China, Hong Kong and the USA. In the pharmaceutical arena, Mr. CHEUNG has more than twenty years of strategic top-management level experience.

Mr. YUNG Kin Hang, aged 51, is an Executive Director of the Company. Mr. YUNG has extensive experience in pharmaceutical industry, property management and administration. He joined the Group in February 2000.

Mr. YAU Yat Biu, aged 38, is the Deputy Managing Director of the Company and is responsible for the management of the Group's strategic investment and business development. He has over fifteen years' experience in trading, business investment and financial management. He had held various senior management positions in an international conglomerate before he joined the Group in February 2000.

Mr. WONG Wing Shing, Wilson, aged 42, is an Executive Director of the Company. Mr. WONG has over sixteen years' experience in the watch industry including marketing, production engineering and product design. He graduated from the Hong Kong Polytechnic University with a higher diploma in production and industrial engineering in 1981. He joined the Group in 1986.

Mr. CHU Yuk Kuen, aged 47, is an Executive Director of the Company. He has over sixteen years' experience in marketing and manufacturing business. He joined the Group in 1998.

Ms. WU Yun Yu, formerly known as WU Ru, aged 33, is an Executive Director of the Company. Ms. WU graduated from Zhong Shan University with a Bachelor of Arts Degree in philosophy. Ms. WU had been working for a Hong Kong listed company for more than 4 years and was responsible for the import of pharmaceutical products and equipments for the Health Bureau of Guangzhou Municipal Government and other major hospitals. Ms. WU has extensive experience in pharmaceutical industry including Chinese and Western pharmaceutical products, health care products, and medical apparatus. She joined the Group in June 2001 and is responsible for the business promotion and development in Mainland China.

# Report of the Directors

## Biographical Details of Directors and Senior Management *(continued)*

### *Independent non-executive directors*

Mr. CHAN Nim Leung, Leon, aged 46, is a qualified solicitor in Hong Kong, England and Wales and in the State of Victoria, Australia. He is the principal partner of Y. T. Chan & Co., solicitors and notaries. He is a member of the Solicitors Disciplinary Tribunal appointed by the Chief Justice. He is also a non-executive director of several listed companies in Hong Kong. Mr. CHAN became an Independent Non-executive director of the Company in February 2000.

Ms. LO Miu Sheung, Betty, aged 40, who graduated from the University of Hong Kong with a Bachelor degree in Laws, is a qualified solicitor in Hong Kong, Singapore and England and Wales. Ms. LO has more than ten years' experience in general legal practice. She is currently a consultant of Messrs. K.C.Ho & Fong, solicitors and notaries. Ms. LO has been a non-executive director of Kessel International Holdings Limited since September 1997. Ms. LO became an Independent Non-executive Director of the Company in February 2000.

Mr. CHIU Kin, aged 44, had been working as department head for the Finance and Tax Bureau of Guangzhou Municipal Government for over fifteen years and had acquired very extensive experiences in accounting, finance and taxation. Since 1994, Mr. CHIU has engaged in import and export businesses and investments in both Mainland China and Hong Kong. Mr. CHIU joined the Group in April 2002.

### *Senior management*

Mr. CHAN Wing Chuen, aged 44, is a director of the subsidiaries. Mr. CHAN graduated from the Trent University in Canada with a Bachelor degree in Science and has extensive management experience in sales and distribution of computer components and system and network solutions. Mr. CHAN joined the Group in January 2001.

Mr. HO Chung Pui, aged 38, is the sales and marketing manager of the subsidiaries and is responsible for marketing and strategic planning, product development and customer services. He has over ten years' experience in sales and marketing. He graduated from York University in Canada with a Bachelor degree in Science and Bachelor degree in Arts majoring in mathematics and computer science. Mr. HO joined the Group in 1989.

## Directors' Interests in Contracts

No contracts of significance in relation to the Company's business to which the Company or its subsidiaries was a party, and in which a 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.

## Management Contracts

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.

## Directors' Interest in Securities

### (a) Ordinary share in the Company:

As at 31 December 2001, the interests of the directors, chief executives and their associates in the shares and warrants of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Number of ordinary shares beneficially held		Number of 2002 warrants beneficially held (note 3)	
	Personal interest	Corporate interest	Personal interest	Corporate interest
Mr. CHEUNG Lik Chung	—	1,346,448,000 (note 1)	—	—
Mr. WONG Wing Shing, Wilson	25,100,000	500,000 (note 2)	—	83,333 (note 2)

Notes:

- (1) The shares under "Corporate interest" were held by Huge China Developments Limited, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. CHEUNG Lik Chung.
- (2) The shares and the warrants under "Corporate interest" were held by Farmcote International Limited, a company incorporated in the British Virgin Islands, which is controlled by Mr. WONG Wing Shing, Wilson.
- (3) 2002 warrants had expired after close of business on Friday, 15 February 2002.

Save as disclosed above and other than certain nominee shares in subsidiaries held on trust for the Group by certain directors, as at 31 December 2001, none of the directors, chief executives of the Company and their associates had or was deemed to have any interests in any securities of the Company or any associated corporations as defined in the SDI Ordinance.

# Report of the Directors

## Directors' Interest in Securities (continued)

### (b) Directors' rights to acquire shares

Pursuant to the Share Option Scheme of the Company, certain directors of the Company were granted share options to subscribe for shares of the Company, details of which as at 31 December 2001 are as follows:

Directors	Date of grant	Outstanding as at 1 January 2001	Granted during the year	Cancelled during the year	Outstanding as at 31 December 2001	Option period	Subscription price per share
Mr. CHEUNG Lik Chung	3/3/2000	67,500,000	—	—	67,500,000	2/9/2000 to 1/9/2003	HK\$0.18
Mr. ZHANG David	3/3/2000	20,000,000	—	(20,000,000)	—	2/9/2000 to 1/9/2003	HK\$0.18
Mr. YAU Yat Biu	3/3/2000	20,000,000	—	—	20,000,000	2/9/2000 to 1/9/2003	HK\$0.18
Mr. YUNG Kin Hang	3/3/2000	52,500,000	—	—	52,500,000	2/9/2000 to 1/9/2003	HK\$0.18

No share options were exercised by the directors during the year.

Apart from the abovesaid, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debentures of the Company or any other corporate, and none of the directors, or chief executives, or any of their respective spouses or children under the age of 18 years, had any right to subscribe for securities of the Company or had exercised any such right.

## Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 4 July 1996 for primary purpose of providing incentives to directors and eligible employees and will expire on 3 July 2006. Under the Scheme, the directors of the Company may, at their discretion, invite any employee and any executive director of the Company or its subsidiaries, to take up options at HK\$1 per option to subscribe for shares in the Company.

The total number of the shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

## Share Option Scheme *(continued)*

Options may be exercised at any time from the date of grant of the share option to the date of expiry of the option as may be determined by the directors which shall not exceed three years commencing on the expiry of six months after the date of the option is accepted and expiring on the last day of such three year period or 3 July 2006 whichever is the earlier. The exercise price is determined by the directors of the Company, and will not be less than the higher of closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

Details of options outstanding as at 31 December 2001 are as follows:

	<b>Number of share options</b>
As at 1 January 2001	170,000,000
Less : share options lapsed during the year	20,000,000
As at 31 December 2001	150,000,000

## Substantial Shareholders' Interest in the Share Capital of the Company

As at 31 December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the directors, chief executives and associates as disclosed above.

## Major Suppliers and Customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

	<b>2001</b>	2000
	%	%
<b>Purchases</b>		
– the largest supplier	<b>29</b>	33
– five largest suppliers combined	<b>65</b>	61
<b>Sales</b>		
– the largest customer	<b>12</b>	19
– five largest customers combined	<b>50</b>	54

None of the directors, chief executives and their associates or any shareholder (which to the knowledge of the directors own more than 5 percent of the Company's share capital) had an interest in the major suppliers or customers noted above.

# Report of the Directors

## Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's bye-laws and there are no restrictions against such rights under the laws of Bermuda, being the jurisdiction in which the Company is incorporated.

## Purchase, Sale or Redemption of the Company's Listed Securities

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

## Practice Note 19 of the Listing Rules

Save as mentioned in note 17 to the accounts, there is no other disclosure required to be made by the Company pursuant to Practice Note 19 of the Listing Rules.

## Corporate Governance

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 of the Stock Exchange for the year, except that the non-executive directors of the Company are not appointed for specific terms and are subject to retirement and re-election at the annual general meeting of the Company in accordance with the Article 87 of the Company's Bye-laws. The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice. The Committee comprises two independent non-executive directors of the Company and the present members of the Committee are Mr. CHAN Nim Leung, Leon and Mr. CHIU Kin.

## Auditors

PricewaterhouseCoopers resigned as joint auditors of the Group on 21 January 2000. Graham H.Y. Chan & Co. remained the auditors of the Group from that date.

Apart from the foregoing, there were no other changes in auditors of the Group in any of the preceding three years.

Graham H. Y. Chan & Co. retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Cheung Lik Chung**

*Chairman*

Hong Kong, 27 April 2002