

Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and provides corporate management services. The principal activities of the Company's subsidiaries are set out in note 37 to the financial statements.

SEGMENTAL INFORMATION

Details of segmental information are set out in note 5 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers in aggregate accounted for less than 30% of the Group's turnover for the year.

The five largest suppliers in aggregate accounted for less than 30% of the Group's total purchases for the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 23.

The directors now recommend the payment of a final dividend of HK\$0.003 per share to the shareholders on the register of members on 29 May, 2002, amounting to HK\$6,295,000.

FINANCIAL SUMMARY

A summary of the Group's financial position as at 31 March, 1998, 31 March, 1999, 31 December, 1999, 31 December, 2000 and 31 December, 2001 and its results for the past two years ended 31 March, 1999, for the nine months ended 31 December, 1999 and for the two years ended 31 December, 2001 is set out on page 59.

*Report of the Directors***INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT**

During the year, the construction of new factory buildings and staff quarters situated in the People's Republic of China (the "PRC") has been completed and the costs have been transferred to the appropriate category of property, plant and equipment. The Group also acquired other property, plant and equipment at a cost of approximately HK\$7.9 million for business expansion. In addition, the Group transferred its investment property to leasehold properties for its own. Details of these and other movements during the year in the investment property and the property, plant and equipment of the Group are set out in notes 14 and 15 to the financial statements, respectively.

No interest was capitalised by the Group during the year.

MAJOR PROPERTIES

Particulars of the Group's major properties at 31 December, 2001 are set out on page 60.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 37 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the Company's share capital are set out in note 25 to the financial statements.

SHARE OPTIONS AND WARRANTS

The Company has adopted a share option scheme (the "Scheme"), which was approved at a special general meeting of the Company held on 9 April, 1999, for the primary purpose of providing incentives to its employees. Pursuant to the Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher. The share options are exercisable at any time for a period to be determined by its directors, which shall not be more than ten years from the adoption of the Scheme up to 8 April, 2009. Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$1. Unless otherwise terminated or altered, the Scheme will remain in force for a period of ten years from the date of adoption.

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SHARE OPTIONS AND WARRANTS (continued)

The maximum number of shares in respect of which options may be granted under the Scheme together with shares previously issued pursuant to options exercised under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

Upon amendments to The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on 1 September, 2001, certain terms of the Scheme need to be amended, or alternatively, a new share option scheme needs to be implemented, in order to comply with the requirements of the Listing Rules. According to the Listing Rules as amended, no more share is available for issue under the Scheme.

No option was granted by the Company during the year and no option was outstanding at 31 December, 2001.

Details of the Company's warrants are set out in note 26 to the financial statements.

RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in note 27 to the financial statements.

DIRECTORS

The directors of the Company for the year and up to the date of this report were:

Executive directors:

Dr. Lam How Mun Peter
Chairman and Managing Director
Mr. Cheung Chung Kiu
Mr. Lam Hiu Lo
Mr. Leung Chun Cheong
Mr. Leung Wai Fai
Ms. Poon Ho Yee Agnes

Independent non-executive directors:

Mr. Lam Kin Fung Jeffrey
Mr. Lam Ping Cheung

*Report of the Directors***DIRECTORS** (continued)

In accordance with Clause 87 of the Company's Bye-laws, Mr. Leung Chun Cheong retires by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company.

Messrs. Lam Kin Fung Jeffrey and Lam Ping Cheung being re-elected as independent non-executive directors on 24 May, 2001, hold such office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

All other remaining directors continue in office.

DIRECTORS' SERVICE CONTRACTS

Certain executive directors have entered into service agreements with the Company and these service agreements will continue thereafter until terminated by either party by three months' prior written notice. Dr. Lam How Mun Peter has agreed to act as an executive director for a period of three years, commencing on 1 April, 1999. Ms. Poon Ho Yee Agnes and Mr. Leung Chun Cheong have agreed to act as executive directors for a period from 1 April, 1999 to 31 March, 2001 and their service contracts continue thereafter.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December, 2001, the interests of the directors and their associates in the share capital of the Company or any of its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

(a) Interests in the Company

Directors	Number of shares of HK\$0.01 each in the Company held			Number of warrants held	
	Personal interests	Family interests	Corporate interests	Personal interests	Corporate interests
Dr. Lam How Mun Peter	1,200,000	-	-	-	-
Mr. Cheung Chung Kiu	-	-	1,079,592,360 (Note 1 & 4)	-	11,030,400 (Note 2 & 4)
Mr. Leung Chun Cheong	7,710,000	-	-	-	-
Ms. Poon Ho Yee Agnes	-	-	-	104,000	-

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DIRECTORS' INTERESTS IN SECURITIES (continued)

(b) Interests in Yugang International Limited ("Yugang"), the Company's holding company

Directors	Number of shares held		Convertible note held
	Personal interests	Corporate interests	Corporate interests HK\$
Mr. Cheung Chung Kiu	53,320,000	3,194,434,684 (Note 3 & 4)	100,000,000 (Note 5)
Mr. Lam Hiu Lo	38,600,000	–	–

(c) Interests in Prestige Properties Holdings Limited, Yugang's associate

Director	Number of shares held corporate interests
Mr. Cheung Chung Kiu	273,000,000 (Note 6)

Notes:

- These shares are owned by (i) Bookman Properties Limited ("Bookman") as to 105,240,000 shares, and (ii) Regulator Holdings Limited ("Regulator") as to 974,352,360 shares.
- These warrants are owned by (i) Bookman as to 2,104,800 warrants, and (ii) Regulator as to 8,925,600 warrants.
- These shares are owned by Chongqing Industrial Limited ("Chongqing").
- Chongqing is the beneficial controlling shareholders of both Bookman and Regulator. Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing respectively. Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family. Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.
- The amount represents a convertible note of HK\$100,000,000 issued by Yugang with maturity date on 31 July, 2004 to Timmex Investment Limited in which Mr. Cheung Chung Kiu has 100% beneficial interest. The convertible note can be converted into Yugang's shares at a conversion price of HK\$0.10 per share during the period from 31 July, 2001 to 31 July, 2002, HK\$0.11 per share for the period from 1 August, 2002 to 31 July, 2003 and HK\$0.12 per share for the period from 1 August, 2003 to 31 July, 2004, subject to adjustment.

*Report of the Directors***DIRECTORS' INTERESTS IN SECURITIES (continued)**

Notes: (continued)

6. These shares are held by Funrise Ltd., a wholly-owned subsidiary of Yugang.
7. The warrants shown in (a) above have an exercise period from 12 June, 2000 to 11 June, 2002 (both dates inclusive). Each warrant carries a right to subscribe for ten shares of HK\$0.01 each in the Company at a subscription price of HK\$0.065 per share.

Save as disclosed above, as at 31 December, 2001, the Company had no notice of any interests to be recorded under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Under a share option scheme of the Company's holding company, Yugang, options may be granted to directors and employees of Yugang or its subsidiaries to subscribe for shares in Yugang. On 24 March, 2000, the following directors of the Company were granted share options to subscribe for shares in Yugang at an exercise price of HK\$0.144 per share and exercisable from 24 September, 2000 to 18 October, 2003 as follows:

Name of director	Number of share options at 1.1.2001 and 31.12.2001
Cheung Chung Kiu	10,000,000
Lam Hiu Lo	10,000,000
Leung Wai Fai	10,000,000

Other than as disclosed above, at no time during the year was the Company, any of its subsidiaries or its holding company, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors, or any of their associates, had any right to subscribe for the shares of the Company, or had exercised any such right during the year.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On 22 June, 2000, the Company issued a convertible note (the "Note") to Faircom Limited ("Faircom"), a wholly-owned subsidiary of Yugang with a principal amount of HK\$150 million. Details of the terms of the Note are set out in note 24 to the financial statements. During the year, interest for the Note of approximately HK\$7,594,000 was paid to Faircom and no conversion rights attaching to the Note have been exercised.

Faircom is a wholly-owned subsidiary of Yugang which is a substantial shareholder of the Company. By virtue of his interests in Yugang, Mr. Cheung Chung Kiu is deemed to be interested in the Note.

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CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS (continued)

Saved as disclosed above and in note 35 to the financial statements:

- (i) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules; and
- (ii) no contracts of significance subsisted at the end of the year or at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly.

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the following shareholders had interests representing 10% or more of the issued share capital of the Company:

Name of substantial shareholder	Number of shares	Approximately percentage of issued share capital held	Note
Regulator	974,352,360	46.46%	
Yugang International (BVI) Limited ("Yugang-BVI")	1,079,592,360	51.48%	(1)
Yugang	1,079,592,360	51.48%	(2)
Chongqing	1,079,592,360	51.48%	(3)
Mr. Cheung Chung Kiu	1,079,592,360	51.48%	(4)

Notes:

- (1) Regulator is a direct wholly-owned subsidiary of Yugang-BVI. The interest also includes the interest of 105,240,000 shares representing 5.02% held by Bookman, an indirect wholly-owned subsidiary of Yugang-BVI. Yugang-BVI has a deemed interests in 1,079,592,360 shares by virtue of its interests in the shares of Regulator and Bookman.
- (2) These interests are duplicated with those of Yugang-BVI as disclosed herein. Yugang is taken to be interested in the said shares by virtue of its interests in the shares of Yugang-BVI.
- (3) These interests are duplicated with those of Yugang as disclosed herein. Chongqing is taken to be interested in the said shares by virtue of its interests in the shares of Yugang.

*Report of the Directors***SUBSTANTIAL SHAREHOLDERS** (continued)

- (4) These interests are duplicated with those of Chongqing as disclosed herein. Mr. Cheung Chung Kiu is taken to be interested in the said shares by virtue of his interest in the shares of Chongqing.

Other than as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December, 2001.

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.

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

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

SUBSEQUENT EVENT

Details of a significant event which took place subsequent to the balance sheet date are set out in note 36 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Lam How Mun Peter
Chairman and Managing Director

Hong Kong, 12 April, 2002