

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. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## **Segment information**

Details of the Group's segment information for the year ended 31 December 2001 is set out in note 6 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 17 to 54.

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

## **Summary of financial information**

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 55 and 56. This summary does not form part of the audited financial statements.

## **Fixed assets**

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 15 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 the reasons therefor, are set out in note 25 to the financial statements.

## **Pre-emptive rights**

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **Purchase, redemption or sale of listed securities of the Company**

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

## **Reserves**

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements.

## **Distributable reserves**

As at 31 December 2001, the Company had no reserves available for distribution as calculated in accordance with Section 34 of the Companies Law (2000 Revision) of the Cayman Islands.

## **Major customers and suppliers**

In the year under review, sales to the Group's five largest customers accounted for 77% of the total sales for the year and sales to the largest customer included therein amounted to 31%.

Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (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 or five largest suppliers.

## Directors

The directors of the Company during the year were:

### **Executive directors:**

Mr. YEH Shuen Ji

Mr. XU Xiaolu

Mr. ZHANG Zhifang

Mr. DAI Xiaojing

Ms. KAM Anais

Mr. WU Ruilin

Mr. WANG Boming (appointed on 3 April 2001)

Mr. Jack William FLADER JR. (resigned as executive director and appointed as non-executive director on 17 May 2001)

### **Non-executive director:**

Mr. Jack William FLADER JR. (appointed on 17 May 2001 and resigned on 1 December 2001)

### **Independent non-executive directors:**

Mr. FU Fengxiang

Mr. YANG Lang (appointed on 3 April 2001)

Mr. WANG Boming (resigned as independent non-executive director and appointed as executive director on 3 April 2001)

In accordance with articles 101 and 119 of the Company's articles of association, Mr. YEH Shuen Ji, Mr. DAI Xiaojing and Ms. KAM Anais will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## 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

No director had a material beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries and associates was a party during the year.

## Directors' interests in shares

As at 31 December 2001, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares held and nature of interest		
	Personal	Family	Total
Mr. Xu Xiaolu	2,100,000	3,250,000	5,350,000

The interests of the directors in the share options of the Company are separately disclosed in the heading "Share option scheme" below.

Save as disclosed above and other than certain nominee shares in subsidiaries held in trust for the Group by certain directors, none of the directors or their 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 defined in the SDI Ordinance as at 31 December 2001.

## 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 included full-time employees (including executive directors) of the Company or any subsidiaries. The Scheme became effective on 3 December 1992 and 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 equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 12,284,000, which represented approximately 1.2% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the number of shares of the Company subject to the Scheme at the time it is proposed to grant the relevant options to such eligible participants.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. No option will be exercisable earlier than 1 year or later than 5 years after the commencement date on which the option was granted and accepted.

## Share option scheme (continued)

The exercise price of the share options is determinable by the directors at their discretion, but may not be less than 80% of the average closing price of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the offer date or the nominal value of the share whichever is the greater.

Details of the share options granted during the year and the movements in the number of share options outstanding under the Scheme during the year are as follows:

Grantee	Date of grant	Exercise price HK\$	Exercisable period	Number of share options			Balance in issue at 31 December 2001	
				Balance in issue at 1 January 2001	Granted during the year	Exercised during the year		Cancelled during the year
<b>Director</b>								
Mr. Xu Xiaolu	22 January 2001	0.128	29 January 2002 to 21 January 2006	-	1,200,000	-	-	1,200,000
Other employees in aggregate	31 August 1999	0.225	31 August 2000 to 30 August 2004	6,400,000	-	-	(1,000,000)	5,400,000
	9 May 2000	0.316	15 May 2001 to 8 May 2005	800,000	-	-	-	800,000
	22 January 2001	0.128	29 January 2002 to 21 January 2006	-	4,084,000	-	(200,000)	3,884,000
	16 March 2001	0.104	27 March 2002 to 15 March 2006	-	1,000,000	-	-	1,000,000
				<u>7,200,000</u>	<u>6,284,000</u>	<u>-</u>	<u>(1,200,000)</u>	<u>12,284,000</u>

## Share option scheme *(continued)*

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 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. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the director and employees because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, in their view, any valuation of the options based on various speculative assumptions would not be meaningful and would be misleading.

## Directors' rights to acquire shares or debentures

Apart from as disclosed under the headings "Directors' interests in shares" and "Share option scheme" above, at no time during the year was the Company or its subsidiaries a party to any arrangements 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.

## Substantial shareholders

As at 31 December 2001, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following shareholders were directly or indirectly interested in 10% or more of the issued share capital of the Company:

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>Percentage of interest</b>
United Home Limited	298,096,988	29.68%
Carlet Investments Ltd.	172,644,210	17.19%

The 172,644,210 shares of the Company were owned by Carlet Investments Ltd., which shares were indirectly owned by United Home Limited by virtue of its 68% interest in Carlet Investments Ltd. In addition to the 172,644,210 shares directly owned by Carlet Investments Ltd., 125,452,778 shares which represents 12.49% of the Company's shares in issue were directly owned by United Home Limited.

## **Substantial shareholders** *(continued)*

Save as disclosed above, the directors of the Company are not aware of any other person who, as at the balance sheet date, was, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company.

## **Post balance sheet events**

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

## **Code of Best Practice**

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, throughout the accounting period covered by the annual report, except that the independent non-executive directors are not appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation in accordance with the articles of association of the Company.

## **Audit committee**

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two members, Mr. Fu Fengxiang and Mr. Yang Lang, independent non-executive directors of the Company.

## **Auditors**

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

ON BEHALF OF THE BOARD

**YEH Shuen Ji**

*Chairman*

Hong Kong

24 July 2002