

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, 2002.

### 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 6 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

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

The five largest customers in aggregate accounted for 37% of the Group's turnover and the largest customer accounted for 10% of the Group's turnover for the year.

None of the directors, their associates or shareholders, who to the knowledge of the directors own more than 5% of the Company's share capital, had any interest in any of the five largest customers.

### 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 26 May, 2003, amounting to HK\$7,131,000.

### INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired an investment property at a cost of HK\$19,384,000 which was revalued as at 31 July, 2002 on an open market basis and it was subsequently transferred to leasehold properties for its own use. The Group also acquired property, plant and equipment of HK\$5,986,000 for the expansion of production capacity. Movements during the year in the investment property and the property, plant and equipment of the Group are set out in notes 15 and 16 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, 2002 are set out on page 58.

### 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 26 to the financial statements.

### SHARE OPTIONS

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.

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.

In accordance with The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), 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, 2002.

## RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 26 and note 29 to the financial statements, respectively.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

In accordance with Clause 87 of the Company's Bye-laws, Mr. Leung Wai Fai 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 29 May, 2002, 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.

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, 2002, 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		Convertible
	Personal interests	Corporate interests	note held Corporate interests
			HK\$
Dr. Lam How Mun Peter	110,000	–	–
Mr. Cheung Chung Kiu	–	1,189,896,360 (Notes 1 & 3)	150,000,000 (Note 4)
Mr. Leung Chun Cheong	7,410,000	–	–
Ms. Poon Ho Yee Agnes	1,040,000	–	–

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

Directors	Number of shares held		Convertible
	Personal interests	Corporate interests	note held Corporate interests
			HK\$
Mr. Cheung Chung Kiu	53,320,000	3,194,434,684 (Notes 2 & 3)	100,000,000 (Note 5)
Mr. Lam Hiu Lo	41,800,000	–	–

**DIRECTORS' INTERESTS IN SECURITIES** (continued)

**(c) Interests in Y.T. Realty Group Limited, Yugang's associate**

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

*Notes:*

- These shares are owned by (i) Bookman Properties Limited ("Bookman") as to 126,288,000 shares, and (ii) Regulator Holdings Limited ("Regulator") as to 1,063,608,360 shares.
- These shares are owned by Chongqing Industrial Limited ("Chongqing").
- Chongqing is the beneficial controlling shareholder 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 note is held by Faircom Limited, a wholly-owned subsidiary of Yugang.
- The amount represents a convertible note of HK\$100,000,000 issued by Yugang with maturity date as of 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.
- These shares are held by a wholly-owned subsidiary of Yugang.

Save as disclosed above, as at 31 December, 2002, 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 ultimate 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:

<b>Name of director</b>	<b>Number of share options at 1.1.2002 and 31.12.2002</b>
Mr. Cheung Chung Kiu	10,000,000
Mr. Lam Hiu Lo	10,000,000
Mr. 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") with a principal amount of HK\$150 million. Details of the terms of the Note were set out in the circular to shareholders dated 26 May, 2000. 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.

Save 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, 2002, 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	1,063,608,360	44.75%	
Yugang International (BVI) Limited ("Yugang-BVI")	1,189,896,360	50.06%	(1)
Yugang	1,189,896,360	50.06%	(2)
Chongqing	1,189,896,360	50.06%	(3)
Mr. Cheung Chung Kiu	1,189,896,360	50.06%	(4)

*Notes:*

- (1) Regulator is a direct wholly-owned subsidiary of Yugang-BVI. The interest of Yugang-BVI also includes the interest of 126,288,000 shares, representing 5.31%, held by Bookman, an indirect wholly-owned subsidiary of Yugang-BVI. Yugang-BVI has a deemed interest in 1,189,896,360 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-BVI is a wholly-owned subsidiary of Yugang. 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.
- (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, 2002.

### **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 EVENTS**

Details of significant events 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, 2002 with the Code of Best Practice as set out in Appendix 14 to 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, 28 March, 2003