

The Board of Directors submit their report together with the audited accounts for the year ended 31st December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in notes 14, 15 and 16 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS

The results for the year are set out in the consolidated profit and loss account on page 16.

DIVIDEND

The Board of Directors recommends the payment of a final dividend of HK\$0.01 per ordinary share, totalling HK\$11,733,237 (2001:HK\$16,969,856).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2002, calculated pursuant to section 79B of the Hong Kong Companies Ordinance, amounted to HK\$55,230,913 (2001: HK\$76,449,111).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2002.

SHARE OPTION

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the "Scheme") to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares in the Company.

SHARE OPTION (Cont'd)

The maximum number of shares to the Scheme and any other schemes of the Company (including without limitation the 1994 Share Option Scheme) does not in aggregate exceed 30 percent of the shares in issue of the Company from time to time. The total number of shares may be issued upon exercise of all options to be granted under the Scheme must not exceed 113,132,370 shares, being 10 percent of shares in issue as at the date of approval of the Scheme by the Shareholders in the Annual General Meeting. The total number of options available for issue under the Scheme as at the date of the annual report is 113,132,370, representing approximately 9.64% of shares in issue of the Company as of that date.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company for the time being.

The consideration for the grant of an option is HK\$1.00. The Scheme participant is entitled to subscribe for shares during such period as may be determined by the Directors (which shall be less than 10 years from the date of the grant of the relevant option and commences six months after the date of grant) at the price to be determined by the Board of Directors but not less than the highest of the nominal value of the shares, the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted and the official closing price of the shares on the Stock Exchange on the date of grant.

Details of share options remain outstanding as at 31st December 2002 are as follows:—

	Options held at 1st January 2002	Options exercised during year	Options lapsed during year	Options held at 31st December 2002	Exercise Price HK\$	Date of Grant	Exercise Period
Directors:—							
Lao Yuan Yi	7,338,100	—	—	7,338,100	0.342	26/09/1995	26/03/1996-07/10/2005
	5,503,900	—	—	5,503,900	0.318	11/07/1996	11/01/1997-15/07/2006
	10,000,000	—	—	10,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
Xin Shulin, Steve	2,534,980	—	—	2,534,980	0.453	26/01/1995	26/07/1995-09/02/2005
	838,640	—	—	838,640	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	—	—	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	4,464,000	—	—	4,464,000	0.283	08/07/1998	08/01/1999-15/07/2008

SHARE OPTION (Cont'd)

	Options held at 1st January 2002	Options exercised during year	Options lapsed during year	Options held at 31st December 2002	Exercise Price HK\$	Date of Grant	Exercise Period
Directors:—							
Yeung Wai Kin	2,401,560	—	—	2,401,560	0.453	26/01/1995	26/07/1995-09/02/2005
	1,494,304	—	—	1,494,304	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	—	—	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	6,980,000	—	—	6,980,000	0.283	08/07/1998	08/01/1999-15/07/2008
Hu Yi Ming	1,000,000	—	—	1,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
	2,300,000	—	—	2,300,000	0.283	08/07/1998	08/01/1999-15/07/2008
Employees	266,840	—	—	266,840	0.453	26/01/1995	26/07/1995-09/02/2005
	4,101,712	—	—	4,101,712	0.318	11/07/1996	11/01/1997-15/07/2006
	1,050,000	—	(100,000)	950,000	0.816	01/11/1997	01/05/1998-12/11/2007
	1,812,000	—	(4,000)	1,808,000	0.283	08/07/1998	08/01/1999-15/07/2008
	<u>57,086,036</u>	<u>—</u>	<u>(104,000)</u>	<u>56,982,036</u>			

The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of share options granted to the participants. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

DIRECTORS

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

- Mr. LAO Yuan Yi
- Mr. XIN Shulin, Steve
- Mr. YEUNG Wai Kin
- Mr. HU Yi Ming
- Mr. XU Wei Ming
- * Prof. WOO Chia Wei
- * Mr. KWOK Lam Kwong, Larry
- Mr. JIANG Guo Fang (resigned on 24th May 2002)
- Mr. LU Wen Qing (resigned on 24th May 2002)

- * *Independent non-executive Directors*

Mr. Xu Wei Ming and Mr. Kwok Lam Kwong, Larry retire in accordance with the Company's articles of association and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Messrs YEUNG Wai Kin, XIN Shulin, Steve and HU Yi Ming have service contracts with the Company which are not determinable within one year without payment of compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors of the Company and senior management of the Group are set out as follows (with age in brackets):—

Mr. Lao Yuan-Yi (57). Chairman & Managing Director. Joined the Company in 1993. Currently Chairman of China Assets (Holdings) Ltd, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Previously senior policy researcher at China's National Research Centre for Science & Technology and Social Development, senior staff officer with the PRC State Science & Technology Commission & the PRC Railway Ministry. Mr. Lao graduated from Shanghai Fudan University and obtained his Master's Degree from Harvard University.

Mr. Xin Shu-Lin, Steve (49). Appointed as Director of the Company in 1998. He joined the Company in 1994 as Executive Vice President in charge of direct investment. Previously Mr. Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992. Mr. Xin is also director of China Assets (Holdings) Limited and RBI Holdings Limited, the Company's associated companies which are listed on The Stock Exchange of Hong Kong Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Mr. Yeung Wai-Kin (41). Appointed as Director of the Company in 1998. He is also Chief Financial Officer and Company Secretary of the Company. Mr. Yeung joined the Company in 1993 and has over 19 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited and RBI Holdings Limited, the Company's associated companies which are listed in The Stock Exchange of Hong Kong Limited. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

Mr. Hu Yi-Ming (40). Appointed as Director of the Company in 1998. He joined the Group in 1996 as Managing Director of its Assets Management Division. Mr. Hu is currently the Managing Director of Public Holdings (Australia) Limited, the listed subsidiary of the Company in Australia. Prior to joining the Group, Mr. Hu was Vice President — Foreign Exchange of Banque Paribas, Hong Kong Branch. Mr. Hu graduated with a Bachelor of Economics degree from the Shanghai University of Finance and Economics. After his graduation, he gained extensive experience in money market dealing from several reputable corporations in PRC, USA and Singapore.

Mr. Xu Wei-Ming (56). Appointed as Director of the Company in 1998. Currently Managing Director of Shanghai Jing Long Business Co Ltd. He graduated from English Department of Shanghai Fudan University, got the Master of Arts of California State University, Sacramento in the United States. Before that, he served as a teacher in the Economic Administration Department of China Textile University.

Professor Woo Chia-Wei (65). Appointed as Independent Non-Executive Director in 1993. Currently Senior Advisor to the Shui On Holdings Limited. President Emeritus of the Hong Kong University of Science and Technology. Previously President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of several companies including Shanghai Industrial Holdings Limited and Legend Holdings Limited. He serves on the Commission on Strategic Development and Council of Advisors on Innovation and Technology of HKSAR, and the Chinese People's Political Consultative Conference.

Mr. Kwok Lam-Kwong, Larry (47). Appointed as Independent Non-Executive Director in 1995. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Singapore. He is also qualified as an accountant in Hong Kong and Australia. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He is currently the Vice-Chairman of the Consumer Council, a member of the Hospital Governing Committee of the Princess Margaret Hospital, a member of the Criminal & Law Enforcement Injuries Compensation Boards and a member of the Trade and Industry Advisory Board in Hong Kong. He is also a member of the Political Consultative Committee of Guangxi of the People's Republic of China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Mr. Wang Jun-Yan (33). Joined the Company in October 1997, is the Managing Director of First Shanghai Financial Holding Limited, an immediate holding company of the financial service division of the Group. He is also director of China Assets (Holdings) Limited, the Company's associated company which is listed in The Stock Exchange of Hong Kong Limited. Mr. Wang has more than 10 years experience in investment banking and securities industry. Mr. Wang holds a bachelor's degree with a major in International Trade from the Zhongshan University. He has also studied in a Ph.D. program of Finance in the City University of New York.

Mr. Mo Siu-Lun, Henry (40). Joined the Company in January 2000 as Chief Information Officer of the Group. Mr. Mo has over 20 years of managerial and technical experience in the information technology, manufacturing and marketing communication sector. Prior to joining the Group, he had held various management positions with major public listed companies. He obtained his Postgraduate Diploma in Engineering Management from City University of Hong Kong, a Master's Degree in Manufacturing Systems Engineering from Warwick University of the United Kingdom and a Master's Degree in Electronic Business from City University of Hong Kong.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group'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.

DIRECTORS' INTERESTS IN SHARE EQUITY OR DEBT SECURITIES

At 31st December 2002, the interests of the Directors in the shares and options of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained by the Company under Section 29 of SDI Ordinance or as notified to the Company are as follows:—

Name of Directors	Number of ordinary shares		
	Personal interests	Family interests	Corporate interests
Mr. Lao Yuan-Yi	42,080,000	—	75,308,000
Prof. Woo Chia-Wei	—	72,000	—

Arrangement on share options granted to Directors are set out in the previous part of this report. Saved as disclosed above, none of the Directors had any interests in the shares and options of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31st December 2002.

DIRECTORS' INTERESTS IN SHARE EQUITY OR DEBT SECURITIES *(Cont'd)*

Apart from the share option scheme as mentioned in previous part of this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executive (including their spouse and children under 18 years of age) of the Company and its associated corporations, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December 2002, the Company had been notified of the following substantial shareholder's interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

Name of shareholder	Number of ordinary shares in the Company
China Assets (Holdings) Limited ("China Assets")	238,032,000

China Assets is a Hong Kong listed company which is also an associated company of the Group. Apart from the above, so far as the Directors are aware, there are no parties which were, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital of the Company as at 31st December 2002.

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.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers respectively are both less than 30% for 2002 and 2001.

FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:—

	2002	2001	2000	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	1,254,449	1,228,273	1,108,722	1,043,037	1,261,502
Total liabilities (Including minority interests)	95,002	124,393	113,552	107,814	422,823
Total net assets	1,159,447	1,103,880	995,170	935,223	838,679
Turnover	171,614	298,332	289,810	719,455	914,009
Profit/(loss) attributable to shareholders	48,929	64,790	58,379	54,321	(143,029)
Earnings/(loss) per share					
— basic	4.32 cents	5.77 cents	5.20 cents	5.10 cents	(13.92 cents)
— fully diluted	4.27 cents	5.70 cents	5.17 cents	5.08 cents	N/A

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the Directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except that the independent non-executive Directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998 and the Company has appointed the two independent non-executive Directors of the Company, Prof. Woo Chia Wei and Mr. Kwok Lam Kwong, Larry as members of the Audit Committee. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. Three meetings were held during the current financial year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LAO Yuan Yi

Chairman and Managing Director

Hong Kong, 11th April 2003