

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries during the year are set out in note 17 to the financial statements.

During the year, the Group acquired the entire interest in Superfort Management Corp. The principal activity of Superfort Management Corp. and its subsidiaries (collectively referred as "Caixun Group") is the provision of advertising agency services.

Subsequent to the year end, on 3 March 2003, the Company entered into an unconditional sale and purchase agreement with an independent third party to dispose of its entire interest in Prod-Art Company Limited ("Prod-Art"). The principal activities of Prod-Art and its subsidiaries (collectively referred as "Prod-Art Group") are the design, manufacture and marketing of electronic consumer products. The disposal constitutes a discontinuing operation of the Group under the Statement of Standard Accounting Practice 33 "Discontinuing operations". Further details of the disposal are included in note 6 to the financial statements. It is expected that the disposal will be completed by 30 June 2003.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 76.

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

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published 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 77 and 78. 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 14 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 notes 31 and 32 to the financial statements, respectively.

## **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 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2002, 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 71% of the total sales for the year and sales to the largest customer included therein amounted to 26%.

## MAJOR CUSTOMERS AND SUPPLIERS *(continued)*

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. Wang Boming

Mr. Zhang Zhifang

Mr. Dai Xiaojing

Mr. Xu Xiaolu

Mr. Yeh Shuen Ji

Ms. Kam Anais

Mr. Li Shijie (appointed on 13 December 2002)

Mr. Wu Ruilin (resigned on 13 December 2002)

Independent non-executive directors:

Mr. Fu Fengxiang

Mr. Yang Lang

In accordance with articles 101 and 119 of the Company's articles of association, Mr. Xu Xiaolu, Mr. Zhang Zhifang, Mr. Li Shijie and Mr. Fu Fengxiang 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

Save as disclosed in note 39 to the financial statements, 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 2002, 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	3,300,000	3,250,000	6,550,000

The interests of the directors in the share options of the Company are separately disclosed in note 32 to the financial statements.

Save as disclosed above, 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 2002.

## SHARE OPTIONS

Due to the adoption during the year of the Statement of Standard Accounting Practice 34 "Employee benefits", disclosures relating to the Company's share option scheme have been moved to note 32 to the financial statements.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme noted 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 2002, 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:

Name	Number of ordinary shares held	Percentage of interest
United Home Limited	677,843,824	48.87%
Carlet Investments Ltd.	172,644,210	12.45%

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., 505,199,614 shares which represent 36.42% of the Company's shares in issue were directly owned by United Home Limited.

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.

## CONNECTED TRANSACTIONS

Details of connected transactions of the Group are set out in note 38 to the financial statements.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company 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 of Hong Kong Limited, 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 had an audit committee appointed in accordance with the requirements of the Code 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.

## AUDITORS

Ernst & Young retire and a resolution for the appointment of Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

**Wang Boming**

*Chairman*

Hong Kong

23 April 2003