

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 15 and 17 respectively to the financial statements.

An analysis of the principal activities and geographical locations of operations of the Group during the financial year is set out in note 4 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

On 25 March 2002, the Group acquired the remaining 55% of the issued share capital of Sharpo Holdings Limited and the shareholder's loan due from Sharpo Holdings Limited to the vendor, an independent third party, for an aggregate cash consideration of HK\$41,000,000. Sharpo Holdings Limited and its subsidiaries are principally engaged in the e-commerce consultancy, software development, system integration, web design and sales of software.

Particulars of the Company's principal subsidiaries and associates at 31 December 2002 are set out in notes 15 and 17 respectively to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 21.

The directors do not recommend the payment of a dividend for the year ended 31 December 2002.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 73.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities. Details of the Company's share capital and share options are set out in notes 26 and 27 respectively to the financial statements.

BANK BORROWINGS

Details of the Group's and the Company's bank borrowings are set out in note 25 to the financial statements. No interest was capitalised by the Group and the Company during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Chung Chi Shing
Lin Hoi Kwong
Zhang Fan
Wang Zhiqiang
Chan Chi Keung, Victor *(resigned on 31 March 2003)*

Non-executive director:

Kwong Jimmy Cheung Tim *(appointed on 31 March 2003)*

Independent non-executive directors:

Lee Yu Leung
Lo Ka Lok, Steve

Directors' Report

In accordance with Article 98 of the Company's Articles of Association, Mr. Kwong Jimmy Cheung Tim shall hold office only until the forthcoming annual general meeting of the Company and being eligible, offer himself for re-election. In accordance with Article 107(A) of the Company's Articles of Association, Messrs. Lin Hoi Kwong and Lo Ka Lok, Steve retire by rotation and, being eligible, offer themselves for re-election.

None of the directors 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' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2002, the interests of the directors, chief executive and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

| Name of directors | Number of ordinary shares held | | | |
|---|--------------------------------|------------------|----------------------------------|-----------------|
| | Personal interests | Family interests | Corporate interests | Other interests |
| Chan Chi Keung, Victor (<i>Note ii</i>) | – | – | 180,000,000 (<i>Note i</i>) | – |
| Chung Chi Shing | – | – | 180,000,000 (<i>Note i</i>) | – |
| Lin Hoi Kwong | 20,000 | – | – | – |

Notes:

- (i) The shares were held by Smart House Investments Limited, a company beneficially owned by both Mr. Chan Chi Keung, Victor and Mr. Chung Chi Shing. On 28 March 2003, Smart House Investments Limited disposed its entire shareholding of 180 million shares of the Company to Mr. Kwong Jimmy Cheung Tim at a consideration of HK\$3,060,000. Mr. Kwong Jimmy Cheung Tim is an independent third party not connected with the directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates. Mr. Kwong Jimmy Cheung Tim was subsequently appointed as a non-executive director of the Company on 31 March 2003.
- (ii) Mr. Chan Chi Keung, Victor resigned as director of the Company on 31 March 2003.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Group, as at 31 December 2002, none of the directors, chief executive or their associates had any interests in any securities of the Company and its associated corporations as defined in the SDI Ordinance.

SHARE OPTIONS

1992 Share Option Scheme

In accordance with the Company's share option scheme, which was adopted pursuant to a resolution passed on 24 July 1992 and was subsequently terminated on 27 May 2002 (the "1992 Share Option Scheme"), the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares of the Company in order to recognise the significant contributions of the eligible employees to the Group.

At 31 December 2002, the number of shares in respect of which options has been granted under the 1992 Share Option Scheme was 41,500,000, representing 1.56% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1992 Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The maximum number of shares in respect of which options may be granted under the 1992 Share Option Scheme in any one financial year shall not exceed 3% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The total number of shares in respect of which options may be granted to any eligible employee is not permitted to exceed 25% of the total number of shares in respect of which options may be granted under the 1992 Share Option Scheme, without prior approval from the Company's shareholders.

No consideration was payable on the grant of the options. Options may generally be exercised at any time during the period commencing on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary thereof. The exercise price is the higher of the nominal value of the shares and an amount which is based on 80% of the average of the closing prices of the shares of the Company on the five business days immediately preceding the date of grant.

Directors' Report

The following table discloses the movements in the Company's share options under the 1992 Share Option Scheme during the year:

| | Date of grant | Exercisable period | Exercise price per share HK\$ | Number of share options | | |
|-------------------------|---------------|------------------------|----------------------------------|-------------------------|------------------------|---------------------------|
| | | | | Outstanding at 1.1.2002 | Lapsed during the year | Outstanding at 31.12.2002 |
| <i>Former directors</i> | | | | | | |
| Yiu Chiu Fai | 26.1.2000 | 26.1.2001 to 25.1.2010 | 0.3300 | 9,000,000 | – | 9,000,000 |
| Lam Kong Yin, Patrick | 26.1.2000 | 26.1.2001 to 25.1.2010 | 0.3300 | 9,000,000 | – | 9,000,000 |
| Total | | | | 18,000,000 | – | 18,000,000 |
| <i>Employees</i> | | | | | | |
| | 26.1.2000 | 26.1.2001 to 25.1.2010 | 0.3300 | 1,500,000 | – | 1,500,000 |
| | 3.2.2000 | 3.2.2001 to 2.2.2010 | 0.3648 | 10,000,000 | – | 10,000,000 |
| | 6.4.2000 | 6.4.2001 to 5.4.2010 | 0.4968 | 5,000,000 | (5,000,000) | – |
| | 19.6.2000 | 19.6.2001 to 18.6.2010 | 0.3152 | 4,000,000 | (1,000,000) | 3,000,000 |
| | 28.7.2000 | 28.7.2001 to 27.7.2010 | 0.2784 | 9,000,000 | – | 9,000,000 |
| | 31.7.2000 | 31.7.2001 to 30.7.2010 | 0.2784 | 12,000,000 | (12,000,000) | – |
| Total | | | | 41,500,000 | (18,000,000) | 23,500,000 |
| Total all categories | | | | 59,500,000 | (18,000,000) | 41,500,000 |

No option was granted and exercised under the 1992 Share Option Scheme during the year.

2002 Share Option Scheme

On 27 May 2002, a new share option scheme (the "2002 Share Option Scheme") was adopted and the 1992 Share Option Scheme was simultaneously terminated by the shareholders of the Company. Accordingly, no further share options can be granted under the 1992 Share Option Scheme.

The purpose of the 2002 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the

Group holds any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; and (vi) any company wholly owned by any participant. The 2002 Share Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of option or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option. Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the option and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the option).

No option was granted, cancelled, exercised and lapsed under the 2002 Share Option Scheme during the year.

There was no option outstanding under both the 1992 Share Option Scheme and the 2002 Share Option Scheme to the directors of the Company at any time during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options referred to above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executive 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, chief executive, their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

- (i) At 31 December 2002, bank loans of HK\$18,672,000 was guaranteed without charge by Henan Hongkong Finance Limited ("HHF"), a wholly owned subsidiary of Henan Hongkong Enterprises Limited ("HHE").
- (ii) The Group did not recognise any guaranteed profit receivable from HHF, details of which are set out in note 36 to the financial statements.

In the opinion of the independent non-executive directors, these transactions entered into by the Group, if applicable, were:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties.

No contract 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.

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 disclosed the following shareholders as having an interest of 10% or more in the issued share capital of the Company:

| Name of shareholder | Number of ordinary shares held | % |
|--------------------------------------|--------------------------------|---------------|
| HHE | 370,000,000 | 13.89% |
| Fulham Associates Limited ("Fulham") | <u>369,856,000</u> | <u>13.88%</u> |

Fulham is wholly-owned by HHE. The interests disclosed under HHE represent the aggregate of its direct interests in the Company of 144,000 shares together with its deemed interests in the shares of the Company by virtue of its interests in Fulham. HHE is wholly-owned by the Henan Provincial Government.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2002.

SUBSEQUENT EVENTS

Details of significant events that have taken place subsequent to the balance sheet date are set out in note 37 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$37,000.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest supplier contributed 68% to the total purchases for the year and the aggregate amount of purchases attributable to the Group's top five suppliers represented 99% of the Group's total purchases.

The Group's largest customer accounted for 22% of the Group's turnover (excluding guaranteed return) and 71% of the total turnover (excluding guaranteed return) of the Group was attributable to the Group's top five customers.

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in the Group's major suppliers or customers noted above.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors and reports to the board of directors. The audit committee provides an important link between the Board and the Company's auditors on matters coming within the scope of the Group audit. The audit committee meets with Group's senior management and auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group. Two meetings were held during the current financial year.

AUDITORS

HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Deloitte Touche Tohmatsu with effect from 15 October 2002. Save as aforesaid, there had been no other changes of the Company's auditors in the past three years.

A resolution for the appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chung Chi Shing

Director

Hong Kong

28 April 2003