

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2001.

## Principal Activities

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 41 to the financial statements.

## Results

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 28 of the annual report.

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

## Major Customers and Suppliers

The aggregate turnover attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's turnover and purchases for the year, respectively.

## Investment Properties and Property, Plant and Equipment

The investment properties and leasehold land and buildings of the Group were revalued on 31st December, 2001. The resulting deficit arising on revaluation of these properties attributable to the Group has been charged to the consolidated income statement and the asset revaluation reserve.

During the year, the Group spent, in aggregate, approximately HK\$99 million on the acquisition of property, plant and equipment for the purpose of expanding the Group's business.

Details of these and other movements in investment properties and property, plant and equipment of the Group and of the Company during the year are set out in notes 12 and 13 to the financial statements, respectively.

## Share Capital and Warrants

Details of the movements in the share capital and warrants of the Company during the year are set out in notes 25 and 26 to the financial statements, respectively.

## Share Options Scheme

On 13th June, 1997, a share option scheme (the "Scheme") was approved at an extraordinary general meeting of the Company as an incentive to the employees under which the board of directors may, at their discretion, invites employees including executive directors of any member of the Group to take up options to subscribe for shares in the Company.

The maximum number of shares in respect of which options may be granted (together with shares in respect of which any options remain outstanding) under the Scheme may not exceed 10 per cent. of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Scheme.

As at 31st December, 2001, the number of shares in respect of which options had been granted under the Scheme was 12,200,000, representing 1.9 per cent. of the shares of the Company in issue at that date. No option might be granted to any one employee which if exercised in full would result in the total number of shares of the Company already issued and issuable to him under all the options previously granted to him and the said option exceeding 25 per cent. of the maximum aggregate number of shares in the capital of the Company in respect of which options might at the time be granted under the Scheme.

A consideration of HK\$1.00 was payable on the grant of an option. Option granted must be taken up within 28 days from the date of grant. Options would be exercised during the twenty one months commencing on the expiry of three months after the date on which the option is accepted, and shall expire at the end of the two years period or 19th July, 2003, whichever is earlier. The exercise price will not be less than the higher of the average of the closing prices of the Company's issued shares on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares of the Company.

The fair value of the options granted in the year ended 31st December, 2001 totalled approximately HK\$2,232,600. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

1. an expected volatility of 63.68% based on historical volatility;
2. no annual dividend; and
3. the Hong Kong Exchange Fund Notes rates of 4.28% for a 2 year period.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

## Share Option Scheme (continued)

No charge is recognised in the income statement in respect of the value of options granted in the period.

The following table discloses movements in the Company's share options during the year:

Name	Outstanding as at 1.1.2001	Granted during the year	Exercised during the year	Exercise price	Outstanding as at 31.12.2001
Mr. Tang To	-	2,100,000	-	0.41	2,100,000
Mr. Wong Yiu Ming	-	1,500,000	-	0.41	1,500,000
Aggregate total of employees	-	8,600,000	-	0.41	8,600,000

The closing price of the Company's share immediately before 23rd June, 2001, the date of grant, was HK\$0.43.

The option period during which the above share options may be exercised is the period from 21st October, 2001 to 19th July, 2003.

## Directors

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

### Executive directors:

Mr. Tang To, *Chairman*  
Mr. Wong Yiu Ming  
Ms. Zhou Junqing

### Non-executive directors:

Mr. Tang Kwan, *Honorary Chairman*  
Mr. Wu Jun, *Vice Chairman*  
Mr. Kan Wai Wah

### Independent non-executive directors:

Mr. Liang Shangli  
Mr. Yip Jeffery

In accordance with Article 103 of the Company's Articles of Association, Mr. Tang Kwan, Ms. Zhou Junqing and Mr. Wu Jun retire 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 terminable within one year without payment of compensation (other than statutory compensation).

# Report of the Directors

## Term of Office of Non-executive Directors and Independent Non-executive Directors

The non-executive directors and independent non-executive directors were not appointed for a specific term but subject to retirement by rotation and re-appointment in accordance with Article 103 of the Company's Articles of Association.

## Directors' and Chief Executive's Interests in Shares, Options and Warrants

As at 31st December, 2001, according to the register required to be maintained under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of directors, chief executive and their associates in the share capital of the Company (within the meaning of the SDI Ordinance) were as follows:

### (i) Interests in shares of the Company

Name of director	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Tang To	2,700,000		3,145,824 (Note 1)	
Mr. Wong Yiu Ming	8,814,611		-	-
Ms. Zhou Junqing	-	20,000	-	-
Mr. Tang Kwan	-	-	270,086,411 (Note 2)	-
Mr. Kan Wai Wah	124,000	-	-	-

#### Notes:

- (1) As at the Latest Practicable Date, 3,145,824 Shares were held by Ginta Company Limited ("Ginta") which is beneficially owned as to 10% by the spouse of Mr. Tang To and 90% by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
- (2) Mr. Tang Kwan is deemed to be interested in the block of 270,086,411 Shares under the SDI Ordinance through his beneficial interests in Codo Development Limited ("Codo"). As at the Latest Practicable Date, Codo through its wholly owned subsidiary, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings"), a substantial shareholder of the Company, was the beneficial owner of 270,086,411 Shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited ("Keepsound"), a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"), (iii) 30.25% by Friendchain Investments Limited ("Friendchain"), a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited, (iv) 16.09% by Yik Wan Company Limited ("Yik Wan"), and (v) 20.23% by 7 individuals.

## Directors' and Chief Executive's Interests in Shares, Options and Warrants (continued)

### (ii) Interests in options to subscribe for Shares

Name of Directors	Number of share options granted during the year	Number of share options exercised during the year	Number of share options outstanding as at 31st December, 2001	Exercise price	Exercise period of share options
Mr. Tang To	2,100,000	—	2,100,000	0.41	21.10.01 to 19.07.03
Mr. Wong Yiu Ming	1,500,000	—	1,500,000	0.41	21.10.01 to 19.07.03

### (iii) Interests in warrants of the Company (the "Warrants")

Name of Directors	Number of Warrants
Mr. Tang To ( <i>Note 1</i> )	1,169,164
Mr. Wong Yiu Ming	1,762,922
Ms. Zhou Junqing	4,000
Mr. Tang Kwan ( <i>Note 2</i> )	54,017,282
Mr. Kan Wai Wah	24,800

#### Notes:

1. The 1,169,164 Warrants are beneficially owned as to 629,164 Warrants by Ginta and as to 540,000 Warrants by Mr. Tang To. Mr. Tang To is deemed to be beneficially interested in the whole block of 1,169,164 Warrants by virtue of his interest in Ginta.
2. The 54,017,282 Warrants are beneficially owned as to 22,503,600 Warrants by Cosmos Holdings, as to 585,600 Warrants by Mr. Tang Kwan and as to 30,928,082 Warrants by Tai Shing Agencies Limited ("Tai Shing"). Mr. Tang Kwan is deemed to be beneficially interested in the whole block of 54,017,282 Warrants by virtue of his interests in Cosmos Holdings and Tai Shing.

# Report of the Directors

## Substantial Shareholders

Other than the interests disclosed above in respect of certain directors and their associates, details of the interests representing 10% or more of the issued share capital of the Company as at 31st December, 2001 recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance are as follows:-

Name of shareholder	Number of shares held		Percentage of issued share capital
	Direct interest	Deemed interest	
Cosmos Holdings	115,446,000	154,640,411 (Note 1)	42.15
Ms. Law Kit Fong	–	270,086,411 (Note 2)	42.15
China Resources (Holdings) Company Limited ("CRC")	148,576,081	5,650,325 (Note 3)	24.07

*Notes:*

- (1) Cosmos Holdings is interested in 154,640,411 Shares through its subsidiary, Tai Shing.
- (2) Ms. Law Kit Fong is deemed to be interested in the block of 270,086,411 Shares through her beneficial interests in Codo. As at the Latest Practicable Date, Codo through its wholly owned subsidiary, Cosmos Holdings, was the beneficial owner of 270,086,411 Shares. Codo is a Hong Kong company and is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by The Saniwell Trust, (ii) 8.37% by Elegant Power, a company controlled by Ms. Law Kit Fong; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power; (iv) 16.09% by Yik Wan, a Hong Kong company in which Ms. Law Kit Fong's late spouse, Mr. Kan Woon Cheung, had 14.29% beneficial holding, and (v) 20.23% by 7 individuals.
- (3) CRC is interested in 5,650,325 Shares through its subsidiary, China Resources Machinery Company Limited.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2001.

## Directors' Interests in Contracts of Significance

No contracts of significance to which the Company or any of its holding companies, subsidiaries or fellow 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' and Chief Executive's Rights to Acquire Shares or Debt Securities

Other than as disclosed above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate; and none of the directors, 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 rights.

## Post Balance Sheet Events

Details of significant post balance sheet events are set out in note 42 to the financial statements.

## Employees and Remuneration Policy

As at 31st December, 2001, the Group has approximately 6,000 employees (2000: approximately 7,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

## Purchase, Sale or Redemption of the Company's Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

## 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 the two independent non-executive Directors.

# Report of the Directors

## Code of Best Practice

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 (the "Listing Rules") except that the non-executive directors and independent non-executive directors were not appointed for a specific term but subject to retirement by rotation and re-appointment in accordance with the Company's Articles of Association.

## Joint Auditors

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu and Messrs. Ting Ho Kwan & Chan as joint auditors.

On behalf of the Board

**TANG To**

*Chairman*

Hong Kong, 23rd April, 2002