

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2001.

### PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The subsidiaries of the Company are primarily engaged in distribution of live and fresh foodstuffs, trading, livestock farming, feed production, manufacturing & sales of tinplates and related products and development and leasing of various industrial properties in Zhongshan, the PRC. The operations of supermarket chain stores engaged by the subsidiaries have been ceased during the year.

The analysis of the Group's turnover by principal activities, the Group's operating result by business segments and by geographical segments during the financial year are respectively set out in notes 3 and 15 on the financial statements.

### RESULTS AND DIVIDENDS

The Group's consolidated results for the year ended 31 December 2001 are set out in the consolidated profit and loss account on page 37.

The Directors resolved not to make the payment of interim dividend (2000: HK\$Nil) and do not recommend the payment of a final dividend (2000 : HK\$Nil) for the year.

### PROVISION FOR BAD AND DOUBTFUL DEBTS

For the year ended 31 December 2001, the Group recorded a provision for bad and doubtful debts of about HK\$4.3 million (2000 : HK\$51.7 million).

### FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in notes 16(a) and 16(b) on the financial statements respectively.

## **PRINCIPAL SUBSIDIARIES AND ASSOCIATES**

Details of the Company's principal subsidiaries and associates as at 31 December 2001 are set out in notes 38 and 40 on the financial statements respectively.

## **BORROWINGS AND INTEREST CAPITALISED**

Details of borrowings of the Group are set out in note 25 on the financial statements. No interest was capitalised by the Group during the year.

## **SHARE CAPITAL**

Details of the share capital of the Company are set out in note 28 on the financial statements.

## **CONVERTIBLE NOTES**

Details of the convertible notes are set out in note 27 on the financial statements.

## **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in notes 29(a) and 29(b) on the financial statements respectively.

## **RETIREMENT BENEFITS SCHEME**

Details of the Group's retirement benefits scheme are set out in note 35 on the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, 41.4% of the Group's turnover was attributable to the Group's five largest customers with the largest customer accounting for 19.3% of the Group's turnover. The Group's purchases attributable to the Group's five largest suppliers were less than 30%. None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years ended 31 December 2001 is set out on pages 111 and 112.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

### *Executive Directors*

LIANG Jiang	(Appointed on 14 January 2002)
LI Li	
CHEN Lizhong	
WOO Ching Yee	(Appointed on 14 September 2001)
YE Xuquan	(Resigned on 14 January 2002)
WOO King Hang	(Resigned on 4 April 2001)

### *Non-executive Directors*

WU Wai Chung, Michael	(Appointed on 9 April 2001)
LUO Fanyu	
HOU Zhuobing	
LU Qianli	(Resigned on 4 April 2001)
JIANG Guoqiang	(Resigned on 4 April 2001)

### *Independent Non-executive Directors*

Gerard Joseph McMAHON
TAM Wai Chu, Maria
LI Kar Keung, Caspar

## DIRECTORS (Continued)

In accordance with Article 92 of the Company's Articles of Association, Mr. Liang Jiang and Ms. Woo Ching Yee shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Ms. Hou Zhuobing, Mr. Gerard Joseph McMahon and Mr. Li Kar Keung, Caspar shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES

As at 31 December 2001, the following Directors had interests in shares and/or rights to subscribe for shares of the Company and its associated corporations that are required to be recorded in the register kept by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"):

### (I) SHARE

- (i) The Company

Name	Number of Ordinary Shares held
Woo Ching Yee	2,000,000

- (ii) Guangdong Investment Limited

Name	Number of Ordinary Shares held
Li Li	520,000
Chen Lizhong	390,000*

\* Including 90,000 shares being family interest.

## DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES (Continued)

### (I) SHARE (Continued)

(iii) Guangdong Brewery Holdings Limited

Name	Number of Ordinary Shares held
Luo Fanyu	70,000

(iv) Guangdong Tannery Limited

Name	Number of Ordinary Shares held
Luo Fanyu	70,000
Hou Zhuobing	10,000

### (II) SHARE OPTION

The interests of the Directors in the rights to subscribe for shares of the Company and associated corporation are separately disclosed in the section "Share Option Schemes of the Company and Associated Corporation" below.

Save as disclosed above, under the section "Share Option Schemes of the Company and Associated Corporation" below and other than certain nominee shares in subsidiaries of the Company held by the Directors in trust for the Company, as at 31 December 2001, none of the Directors and chief executive of the Company had or was deemed to have any interest in any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which requires notification pursuant to section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under section 31 or part 1 of the schedule to the SDI Ordinance) or which is required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, and none of the Directors and chief executives of the Company, or their spouse or children under the age of 18, had any right to subscribe for any securities of the Company, or had exercised any such right.

### SHARE OPTION SCHEMES OF THE COMPANY AND ASSOCIATED CORPORATION

#### (i) The Company

On 21 November 1994, in order to align the interests of Directors and employees with those of the shareholders, the Company adopted a share option scheme (“1994 Share Option Scheme”) pursuant to which the Directors are authorized, at their discretion, to invite Directors or employees of the Company and its subsidiaries to take up options to subscribe for shares of the Company. Offers of options under the 1994 Share Option Scheme may be accepted in writing within 21 days from the date of making such offer. Options granted under the 1994 Share Option Scheme is exercisable within a period commencing twelve months after the date of acceptance of options and expiring on the last day of a four year period from such acceptance date or 20 November 2004, whichever is earlier. The 1994 Share Option Scheme shall expire on 20 November 2004.

On 24 August 2001, for the purpose of having a new share option scheme with terms compatible with modern practice, providing greater flexibility to the Directors, the Company adopted a new share option scheme (the “2001 Share Options Scheme”). Pursuant to the 2001 Share Option Scheme, the Directors are authorized, at their discretion, to invite full-time employees of the Company and its subsidiaries, including Executive Directors but excluding Non-executive Directors to take up options to subscribe for shares of the Company. A grant of options under the 2001 Share Option Scheme may be accepted in writing and upon payment of a consideration of HK\$10 in total by the grantee to the Company within 21 days from the date of grant. Options granted under the 2001 Share Option Scheme is exercisable within a period of 5 years commencing on the business day immediately following the expiry of 3 months after the date of grant and expiring at the close of business on the last business day of such 5 year period. The 2001 Share Option Scheme shall expire on 23 August 2011.

The total number of shares in respect of which options may be granted (together with options exercised and options then outstanding) when aggregated with any shares subject to the 1994 Share Option Scheme and the 2001 Share Option Scheme (collectively the “Schemes”) may not exceed 10% of the issued share capital of the Company at the time of grant of options (excluding any shares issued upon exercise of options granted under the Schemes). As at 31 December 2001, the number of shares issuable for options granted under the Schemes was 302,200,000 which represented approximately 3.38% of the Company’s shares in issue.

## **SHARE OPTION SCHEMES OF THE COMPANY AND ASSOCIATED CORPORATION (Continued)**

### **(i) The Company (Continued)**

The maximum entitlement of each participant under the Schemes will not exceed 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Schemes.

The exercise price of the options under the Schemes is determinable by the Directors in their discretion, but may not be less than the higher of (i) the nominal value of the shares of the Company; and (ii) 80% of the average of the closing prices per share as stated in the Hong Kong Stock Exchange's quotation sheets for the five trading days immediately preceding the date of grant of an option.

During the year, no options have been granted to substantial shareholders, the associates of Directors, the associates of chief executive, the associates of substantial shareholders, participant with options granted in excess of the individual limit and suppliers of goods or services.

Details of the Company's share options granted and exercised during the year and outstanding share options as at the year end date are set out in note 28 on the financial statements.

At 31 December 2001, the Directors did not have any interests in rights to subscribe for shares of the Company under the 1994 Share Option Scheme. Certain employees and other participants of the Company had the following interests in rights to subscribe for shares of the Company granted under the 1994 Share Option Scheme of the Company. Each option gives the holder the right to subscribe for one share of par value HK\$0.1 each of the Company.

**SHARE OPTION SCHEMES OF THE COMPANY AND ASSOCIATED CORPORATION (Continued)**

**(i) The Company (Continued)**

Category or Name	Number of share options held on 1 January 2001 '000	Share options granted during the year		Period during which share option is exercisable	Total consideration paid for share option granted HK\$	Price per share to be paid on exercise of share option HK\$	During the year number of share options			Number of share options held on 31 December 2001 '000
		Date granted	Number granted '000				Exercised '000	Lapsed '000	Cancelled '000	
Employees and other participants	43,795	-	-	21/02/98 to 19/02/2001	-	0.7436	-	43,795	-	-
	15,200	-	-	28/05/98 to 26/05/2001	-	1.0105	-	15,200	-	-
	3,040	-	-	04/07/98 to 02/07/2001	-	0.9827	-	3,040	-	-
	15,200	-	-	12/02/99 to 10/02/2002	-	0.4295	-	-	-	15,200

*Notes:*

1. As a result of the open offer (details of open offer were set out in a circular dated 28 December 2000), the number of options outstanding and related exercise price were adjusted.
2. The underlying shares of the outstanding share options under the 1994 Share Option Scheme as at 31 December 2001 represent 0.17 % of the issued share capital of the Company.

## SHARE OPTION SCHEMES OF THE COMPANY AND ASSOCIATED CORPORATION (Continued)

### (i) The Company (Continued)

At 31 December 2001, the Directors and certain employees of the Company had the following interests in rights to subscribe for shares of the Company granted under the 2001 Share Option Scheme of the Company. Each option gives the holder the right to subscribe for one share of par value HK\$0.1 each of the Company.

Category or Name	Number of share options held on 1 January 2001	Share Options granted during the year		Period during which share option is exercisable	Total consideration paid for share option granted	Price per share to be paid on exercise of share option	During the year			Number of share options held on 31 December 2001	Share price (**)	
		Date granted #	Number granted				Exercised	Lapsed	Cancelled		At grant date	At exercise date
	'000		'000		HK\$	HK\$	'000	'000	'000	'000	HK\$	HK\$
Directors												
Ye Xuquan (resigned on 14 January 2002)	-	24/08/2001	55,000	26/11/01 to 25/11/2006*	10	0.1495	-	-	-	55,000	0.185	-
Li Li	-	24/08/2001	45,000	26/11/01 to 25/11/2006*	10	0.1495	-	-	-	45,000	0.185	-
Chen Lizhong	-	24/08/2001	35,000	26/11/01 to 25/11/2006*	10	0.1495	-	-	-	35,000	0.185	-
Woo Ching Yee	-	24/08/2001	2,000	26/11/01 to 25/11/2006*	10	0.1495	2,000	-	-	-	0.185	0.255
Employees	-	24/08/2001	154,500	26/11/01 to 25/11/2006*	10	0.1495	1,000	1,500	-	152,000	0.185	0.280

## SHARE OPTION SCHEMES OF THE COMPANY AND ASSOCIATED CORPORATION (Continued)

### (i) The Company (Continued)

- # The vesting period of the share option is from the date of grant until the commencement of the exercise period or the grantee's completion of half year's full time service with the Company or its subsidiaries, whichever is the later.
- \* If 25 November 2006 is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.
- \*\* The share price disclosed as at the date of the grant of share options is the Hong Kong Stock Exchange closing price of the shares of the Company on the trading day immediately prior to the date of grant of the share options. The share price disclosed as at the date of the exercise of share options is the weighted average of the Hong Kong Stock Exchange closing prices of the shares of the Company immediately prior to the dates on which the options were exercised.

*Note:*

1. The underlying shares of the outstanding share options under the 2001 Share Option Scheme as at 31 December 2001 represent 3.21 % of the issued share capital of the Company.

In assessing the theoretical aggregate value of the share options granted during the year ended 31 December 2001, the Black-Scholes option pricing model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the most generally accepted methodologies to calculate the value of options and is one of the recommended option pricing models as set out in Rules 17.08 of Listing Rules.

The variables of the Black-Scholes Model include risk-free interest rate, expected life of the options, expected volatility of the expected share prices and expected dividend of the shares.

1. The risk-free interest rate applied in the Black-Scholes Model is 4.99% representing the 5-year yield of the Hong Kong Exchange Fund Notes as at the date of grant of the share options.
2. Expected life of options is 5 years.
3. The expected volatility of the expected share prices of the Company is 74.11% based on the 2-year historical volatility.
4. It is assumed that, based on historical pattern, no dividend would be paid out during the vesting period.

## **SHARE OPTION SCHEMES OF THE COMPANY AND ASSOCIATED CORPORATION (Continued)**

### **(i) The Company (Continued)**

Using the Black-Scholes Model in assessing the value of 291,500,000 share options granted under the 2001 Share Option Scheme during the year, the options would have a theoretical aggregate value of approximately HK\$36,816,450, representing a value of HK\$0.1263 per option as at 24 August 2001 being the date of grant. No forfeiture clause was contained in the 2001 Share Option Scheme.

It should be noted that the Black-Scholes 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 Black-Scholes Model gives the theoretical value of the share options only and should not be interpreted as the market or actual value of the option. The options granted are not recognised in the financial statements until they are exercised.

### **(ii) Guangdong Investment Limited**

Guangdong Investment Limited ("GDI") operates a share option scheme (the "GDI Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the GDI group's operations. Pursuant to the GDI Share Option Scheme adopted on 2 February 1994 and amended on 29 December 1997, and which will expire on 1 February 2004, the directors of GDI may at their discretion offer to any director and/or employee of the GDI group options to subscribe for ordinary shares of GDI. The GDI Share Option Scheme will remain in force for a period of ten years from 2 February 1994.

The maximum number of shares in respect of which options may be granted (including shares issued pursuant to options exercised and shares in respect of which any option remains outstanding) when aggregated with any shares subject to any other share option schemes under the GDI Share Option Scheme may not exceed 10% of the issued shares (excluding any shares issued pursuant to the GDI Share Option Scheme) at the time of granting of the option.

No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the GDI Share Option Scheme exceeding 25% of the aggregate number of shares of the time being issued and issuable under the GDI Share Option Scheme. As at 31 December 2001, the total number of shares issuable for options granted under the Share Option Scheme was 199,345,000 which represented approximately 3.88% of the ordinary shares of GDI in issue.

## SHARE OPTION SCHEMES OF THE COMPANY AND ASSOCIATED CORPORATION (Continued)

### (ii) Guangdong Investment Limited (Continued)

The offer of a grant of share options may be accepted within the date specified in the offer with no consideration being payable by the grantee. An option may be exercised in accordance with the terms of the GDI Share Option Scheme at any time during the period commencing on the first business day after six months from the date of grant of the option and expiring at the close of business day preceding the fifth anniversary thereof.

The price per ordinary share payable on the exercise of an option under the GDI Share Option Scheme as determined by the directors of GDI will be a price being equal to the higher of the nominal value of the ordinary shares and an amount not less than 80% of the average of the closing prices of the ordinary shares as stated in the daily quotation sheets of the Hong Kong Stock Exchange for the five business days immediately preceding the date of grant of the option.

At 31 December 2001, a director of the Company had the following interests in rights to subscribe for ordinary shares of GDI granted under the GDI Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of par value HK\$0.5 each of GDI.

Category or Name	Number of share options held on 1 January 2001	Share Options granted during the year		Period during which share option is exercisable	Total consideration paid for share option granted	Price per share to be paid on exercise of share option	During the year			Number of share options held on 31 December 2001	Share price (**)	
		Date granted#	Number granted				Exercised	Lapsed	Cancelled		At grant date of options	At exercise date of options
	'000		'000		HK\$	HK\$	'000	'000	'000	'000	HK\$	HK\$
Director												
Ye Xuquan (resigned on 14 January 2002)	-	10/08/2001	12,000	11/02/02 to 10/02/2007*	Nil	0.5312	-	-	-	12,000	0.660	-

# The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\* If 10 February 2007 is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.

\*\* The share price disclosed as at the date of the grant of share options is the Hong Kong Stock Exchange closing price of the shares of GDI on the trading day immediately prior to the date of grant of the share options.

### ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Except for the share options held by Directors as mentioned above in the sections “Directors’ Interests in Shares and Rights to Subscribe for Shares” and “Share Option Schemes of the Company and Associated Corporation”, at no time during the year was the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was a party or were parties and in which a Director 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 COMPETING BUSINESSES

During the year, Mr. Ye Xuquan, Director of the Company and resigned on 14 January 2002, is also a director of Guangdong Yue Gang Investment Holdings Company Limited and certain of its subsidiaries, namely GDH Limited, 深圳東深投資控股有限公司 and Guangdong Investment Limited. Guangdong Yue Gang Investment Holdings Company Limited and its subsidiaries (the “Yue Gang Group”) have a wide range of business interests which include, inter alia, manufacturing, trading, wholesaling and retailing, etc. The aforementioned business interests of the Yue Gang Group cover the same or similar areas as some of those of the Group. However, the Directors of the Company do not believe that any of the businesses of the Yue Gang Group compete either directly or indirectly in any material respect with those of the Group.

During the year, Mr. Li Li, Director of the Company, is also a director and general manager of Macau Wholesale Market Nam Yue, Ltd and Nam Yue Food Stuff & Aquatics Co. Ltd., the businesses of which are the operation and management of a wholesale market in Macau for certain live and fresh foodstuffs and the distribution of live and fresh foodstuffs in Macau respectively. Since the aforesaid businesses of the two companies are conducted in Macau, the Directors of the Company do not believe that the businesses of the two companies compete either directly or indirectly in any material respect with those of the Group.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

During the year, Mr. Luo Fanyu, Director of the Company, is also a director of GDH Limited. GDH Limited and its subsidiaries (the "GDH Group") have a wide range of business interests which include, inter alia, manufacturing, trading, wholesaling and retailing, etc. The aforementioned business interests of the GDH Group cover the same or similar areas as some of those of the Group. However, the Directors of the Company do not believe that any of the businesses of the GDH Group compete either directly or indirectly in any material respect with those of the Group.

## DIRECTORS' SERVICE CONTRACTS

No director 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 employing company within one year without payment of compensation (other than statutory compensation).

## TRANSACTIONS DISCLOSED IN ACCORDANCE WITH THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Details of the transactions disclosed in accordance with the Listing Rules are set out on pages 105 to 109.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of ordinary shares beneficially held</b>	<b>Percentage holding</b>
Guangdong Yue Gang Investment Holdings Company Limited ("Yue Gang")	5,359,264,680	59.92%
GDH Limited ("GDH")	5,359,264,680	59.92%

## SUBSTANTIAL SHAREHOLDERS (Continued)

*Note:* The attributable interest which Yue Gang has in the Company represents 5,359,264,680 ordinary shares deemed to be held by GDH. GDH is a wholly-owned subsidiary of Yue Gang.

Save as disclosed herein, the Directors are not aware of any shareholders who had interests of 10% or more of the issued share capital of the Company as at 31 December 2001.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## PUBLICATION OF FURTHER INFORMATION ON THE HONG KONG STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Hong Kong Stock Exchange's website in due course.

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year except that the Non-executive Directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

Complying with the Code of Best Practice, the Company has established an audit committee and the three Independent Non-executive Directors are members of the audit committee. Six audit committee meetings were held throughout the year under review.

### **AUDITORS**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There was no change in auditors of the Company in any of the preceding three years.

On behalf of the Board

**Liang Jiang**

*Chairman*

Hong Kong, 17 April 2002