

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 2002.

#### **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 39 to the financial statements.

#### **RESULTS**

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 21 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, leasehold land and buildings of the Group were revalued on 31st December, 2002. The resulting deficit arising on revaluation of these properties attributable to the Group has been charged to the asset revaluation reserve and the consolidated income statement.

During the year, the Group spent, in aggregate, approximately HK\$65 million on the acquisition of property, plant and equipment for the purpose of expanding 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 13 and 14 to the financial statements respectively.

#### **SHARE CAPITAL AND WARRANTS**

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

## REPORT OF THE DIRECTORS

### SHARE OPTIONS SCHEME

Particulars of the Company's share option scheme (the "Scheme") are set out in note 27 to the financial statements.

The following table discloses details of the Company's share options held by employees (including directors) at 31st December, 2002:

Name	Date of grant	Exercise period	Exercise price	Number of share options outstanding at 31.12.2001 and 31.12.2002
			HK\$	
Mr. Tang To	23.6.2001	21.10.2001 to 19.7.2003	0.41	2,100,000
Mr. Wong Yiu Ming	23.6.2001	21.10.2001 to 19.7.2003	0.41	1,500,000
Aggregate total of employees	23.6.2001	21.10.2001 to 19.7.2003	0.41	8,600,000
				12,200,000

### 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. Shi Shanbo, Vice Chairman (appointed on 17th September, 2002)  
Mr. Wu Jun, Vice Chairman (resigned on 17th September, 2002)  
Mr. Kan Wai Wah

*Independent non-executive directors:*

Mr. Liang Shangli  
Mr. Yip Jeffery

In accordance with Articles 94 and 103 of the Company's Articles of Association, Mr. Shi Shanbo, Mr. Wong Yiu Ming, Mr. Liang Shangli and Mr. Yip Jeffery 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).

## 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, 2002, 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 directors	Personal interests	Number of shares held			Other interests
		Family interests	Corporate 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 31st December, 2002, 3,145,824 shares were held by Ginta Company Limited ("Ginta") which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
- (2) As at 31st December, 2002, Mr. Tang Kwan was deemed to be interested in the block of 270,086,411 shares under the SDI Ordinance through his deemed interests in Codo Development Limited ("Codo"). As at 31st December, 2002, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Tai Shing Agencies Limited ("Tai Shing") was deemed to be interested in 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, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (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.

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

Name of directors	Number of share options outstanding at 31.12.2001 and 31.12.2002	Exercise price	Exercise period
Mr. Tang To	2,100,000	0.41	21.10.2001 to 19.07.2003
Mr. Wong Yiu Ming	1,500,000	0.41	21.10.2001 to 19.07.2003

## REPORT OF THE DIRECTORS

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

Name of directors	Number of warrants
Mr. Tang To (Note 1)	1,169,164
Mr. Wong Yiu Ming	1,762,922
Ms. Zhou Junqing	4,000
Mr. Tang Kwan (Note 2)	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 23,089,200 warrants by Cosmos Holdings, and as to 30,928,082 warrants by 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.

### 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, 2002 recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance were as follows:

Name of shareholders	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
Tai Shing	150,640,411 (Note 1)	–	24.13
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 indirect interests in Codo. As at 31st December, 2002, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 270,086,411 shares.
- (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 by any shareholders of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2002.

**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 EXECUTIVES' 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.

**EMPLOYEES AND REMUNERATION POLICY**

As at 31st December, 2002, the Group has approximately 6,000 employees (2001: approximately 6,000), 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 audit committee of the Company comprises the two independent non-executive directors. The audit committee members possess management and financial experience to advise on the Company's matters. During the last 12 months, the audit committee met twice to review with senior management the accounting practices adopted by the Group, and to discuss internal control and financial reporting matters, including the interim and annual financial statements before recommending the same to the Board for approval.

**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 of Hong Kong Limited.

**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, 25th April, 2003