

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The Company continued to be an investment holding company. The principal activities of its subsidiaries continued to be property investment, property trading and investment holding. Details are set out in note 25 to the accounts.

Over 50% of the Group's turnover for the year was derived from its property rental business in Hong Kong. An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 17.

The directors recommend the payment of a final dividend of HK\$0.02 per share in respect of the year ended 31 December 2001. No interim dividend was paid during the year. In respect of the year ended 31 December 2000, a final dividend of HK\$0.02 per share was declared and paid.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 18 to the accounts.

At 31 December 2001, under the Companies Act 1981 of Bermuda, the reserves of the Company available for distribution, representing contributed surplus and capital redemption reserve net of accumulated losses, amounted to approximately HK\$1,075 million (2000: HK\$1,057 million (as restated)).

FIVE YEAR 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 58 and page 59.

REPORT OF THE DIRECTORS

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and turnover for the year attributable to the Group's major suppliers and customers are as follows:

	2001	2000
	%	%
Purchases		
— the largest supplier	17	12
— five largest suppliers combined	46	33
Turnover		
— the largest customer	31	38
— five largest customers combined	75	51

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

BANK LOANS

The Group's bank loans are secured by the Group's certain properties and comprise term loans as well as revolving credit facilities. An analysis of these borrowings is set out in note 19 to the accounts.

DONATIONS

There was no donation made by the Group during the year (2000: HK\$205,000.00).

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 11 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held by the Group are set out on pages 56 to 57.

Details of the movements in property held for development during the year are set out in note 13 to the accounts.

REPORT OF THE DIRECTORS

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Mr. Cheung Chung Kiu (*Chairman*)
 Dr. Wong Chi Keung, Dickie (*Managing Director*)
 Mr. Yuen Wing Shing
 Ms. Tung Wai Lan, Iris
 Mr. Lee Ka Sze, Carmelo*
 Mr. Wong Wai Kwong, David*

Pursuant to Bye-Law 87(1) of the Company's Bye-laws, Mr. Yuen Wing Shing retires by rotation and offers himself for election.

Pursuant to two respective ordinary resolutions passed in the annual general meeting of the Company held on 24 May 2001, Mr. Lee Ka Sze, Carmelo and Mr. Wong Wai Kwong, David shall cease to hold offices of independent non-executive directors from close of the annual general meeting of the Company to be held on 29 May 2002 and each of Mr. Lee Ka Sze, Carmelo and Mr. Wong Wai Kwong, David offers himself for re-election.

* *Independent non-executive directors*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors:

Cheung Chung Kiu *Chairman*

Mr. Cheung, aged 37, was appointed Chairman of the Company in September 2000. He was born and educated in Chongqing, the PRC. He set up Chongqing Industrial Limited in 1985, which was mainly engaged in the trading business in the PRC. He is the founder of Yugang International Limited ("Yugang"), the chairman of The Cross-Harbour (Holdings) Limited ("Cross-Harbour"), a director of Qualipak International Holdings Limited ("Qualipak") and Silver Grant International Industries Limited, all of which are public companies listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). Furthermore, he is a director of such other companies disclosed in the section headed "Substantial Shareholders' Interest in the Share Capital of the Company" in this annual report.

Wong Chi Keung, Dickie *Managing Director*

Dr. Wong, aged 46, joined the Group in January 2000 as Managing Director. He has a doctorate degree in business and is a member of Hong Kong Institute of Housing, the Chartered Institute of Housing and Hong Kong Institute of Real Estate Administration. He had held various senior executive positions with some of Hong Kong's leading property companies and property consultant firms in the past 26 years. He has taken on an active role in public and voluntary services. Currently, he is a member of The Chinese People's Political Consultative Conference, Nanning City, Guangxi Province. He is also an advisor of Hong Kong Auxiliary Medical Services and Honorary Aide-de-Camp to the Chief Executive of the Hong Kong SAR. He is also an executive director of Cross-Harbour.

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Yuen Wing Shing *Executive Director*

Mr. Yuen, aged 55, was appointed Executive Director of the Company in September 2000. He is responsible for the Group's administration and business operations. He holds a diploma in Management Studies from the Hong Kong Polytechnic. He is also an executive director of Yugang and Cross-Harbour. Prior to joining the Group, he had held senior management positions with a major bank in Hong Kong for over 20 years. Furthermore, he is a director of all the companies disclosed in the section headed "Substantial Shareholders' Interest in the Share Capital of the Company" in this annual report except Chongqing Industrial Limited.

Tung Wai Lan, Iris *Executive Director*

Ms. Tung, aged 36, was appointed Executive Director of the Company in September 2000. She graduated from The Chinese University of Hong Kong with a Master degree of Philosophy. She is also an executive director of Cross-Harbour.

Independent non-executive directors:

Lee Ka Sze, Carmelo

Mr. Lee, aged 41, was appointed Independent Non-Executive Director of the Company in September 2000. He graduated from Hong Kong University with a Bachelor degree of Laws. He is a practising solicitor in Hong Kong and is a partner of Woo, Kwan, Lee & Lo. He is a listing committee member of the main board of the Stock Exchange. He is also a non-executive director of 11 other companies listed on the Stock Exchange including Yugang and Cross-Harbour.

Wong Wai Kwong, David

Mr. Wong, aged 44, was appointed Independent Non-Executive Director of the Company in September 2000. He has over 20 years of experience in finance, accounting, corporate and taxation affairs. He is a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Society of Accountants, the Australian Association of Practising Accountants and the Australasian Association of Secretaries and Managers. He is a non-executive director of 8 other companies listed on the Stock Exchange including Yugang and Cross-Harbour. Furthermore, he is also a director of International Taxation Advisory Services Limited.

Senior management:

Leung Kam Wah *General Manager, Property*

Mr. Leung, aged 46, joined the Group in April 2000 and is responsible for the property arm of the Group. He holds a Master degree in Property Development and Investment from University of Greenwich and Diploma in Surveying from College of Estate Management. He is a member of The Chartered Institute of Building, Architecture and Surveying Institute, Australian Institute of Building and Association of Project Management. He has over 24 years of working experience with private and listed property companies, land consultant firms and the Hong Kong Government.

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Vong Veng Kei, Keith *Financial Controller*

Mr. Vong, aged 41, joined the Group in February 2000. He is a member of the American Institute of Certified Public Accountants. He earned a Master degree of Accounting from the University of Hawaii, U.S.A. Prior to joining the Group, he had worked and held senior positions in a number of U.S. and multinational companies where he accumulated experience in accounting, corporate finance and taxation.

DIRECTORS' SERVICE CONTRACTS

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming Annual General Meeting.

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Lee Ka Sze, Carmelo, is a partner of Woo, Kwan, Lee & Lo, a solicitors' firm, which had rendered legal services to the Company and received normal remuneration for such services.

Save as aforesaid, no other contracts of significance in relation to the Group's business to which the Company, or its subsidiaries, or its fellow subsidiaries, or its holding company 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' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 December 2001, the interests of directors and chief executives in the shares of the Company as recorded in the register maintained under section 29 of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of ordinary shares			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Cheung Chung Kiu	—	—	<i>note</i>	—

Note: 273,000,000 shares of the Company were beneficially owned by Funrise Limited, a wholly-owned subsidiary of Yugang. Yugang is owned as to 0.63% by Mr. Cheung Chung Kiu and as to 37.79% by Chongqing Industrial Limited ("Chongqing"). Chongqing is owned as to 35% by Mr. Cheung Chung Kiu, as to 30% and 5% respectively by Peking Palace Limited and Miraculous Services Limited (companies controlled by Palin Discretionary Trust, the objects of which include Mr. Cheung and his family) and as to 30% by Prize Winner Limited which is owned by Mr. Cheung and his associates.

Apart from the above, none of the directors and chief executives (including their spouses and children under 18 years of age) had any beneficial interests or other interests in the shares of the Company or any of its subsidiaries or associated corporations.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

Details of share options granted to the directors and chief executives of the Company, pursuant to the Company's Share Option Scheme, are set out in the section under the heading "Share Option Scheme".

Apart from the aforesaid, at no time during the year was the Company, or its subsidiaries, or its fellow subsidiaries, or its holding company, a party to any arrangements to enable the directors and chief executives of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

Given below are the names of all parties which were, directly or indirectly, interested in 10 per cent or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at 31 December 2001 as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Shareholder	No. of Ordinary Shares
(i) Funrise Limited (<i>Note</i>)	273,000,000
(ii) Yugang International (BVI) Limited (<i>Note</i>)	273,000,000
(iii) Yugang International Limited (<i>Note</i>)	273,000,000
(iv) Chongqing Industrial Limited (<i>Note</i>)	273,000,000
(v) Mr. Cheung Chung Kiu (<i>Note</i>)	273,000,000
(vi) Mr. Chan Chun Wai	123,293,201

Note: Funrise Limited is a wholly-owned subsidiary of Yugang International (BVI) Limited, which in turn is a wholly-owned subsidiary of Yugang. Chongqing is a controlling shareholder of Yugang and is deemed by virtue of the SDI Ordinance to be interested in these 273,000,000 shares in the Company. The 273,000,000 shares in Company represent the same interest and are therefore duplicated amongst Yugang International (BVI) Limited, Yugang, Chongqing, Funrise Limited and Mr. Cheung Chung Kiu. For Mr. Cheung Chung Kiu's interest, please refer to the section headed "Directors' and Chief Executives' Interests in Equity or Debt Securities" above.

MANAGEMENT CONTRACTS

No contracts concerning the management and administrative of the whole or any substantial part of the business of the Company's entered into or existed during the year.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

Share options are granted to directors, executives and employees under the Share Option Scheme ("Scheme") approved by shareholders of the Company at a Special General Meeting held on 22 December 1993. Details of the Scheme are as follows:

- | | | |
|----|--|--|
| 1. | Purpose of the Scheme | As incentive to executive management and employees. |
| 2. | Participants of the Scheme | Eligible full-time employees including executive directors of the Company and its subsidiaries. |
| 3. | Total number of shares available for issue under the Scheme and the percentage of issued share capital as at 12 April 2002 | 65,058,741 shares, representing 8.16% of the issued capital. |
| 4. | Maximum entitlement of each participant under the Scheme | 25% of the aggregate number of shares issued and issuable under the Scheme. |
| 5. | The period within which the shares must be taken up under an option | 10 years commencing from the date of grant of such options. |
| 6. | The minimum period for which an option must be held before it can be exercised | Subject to the discretion of the directors or authorised committee in accordance to the Scheme from time to time. |
| 7. | The amount payable on acceptance of the option | Nominal amount of HK\$10.00 upon acceptance of the option. |
| 8. | The basis of determining the exercise price | <p>The exercise price is the higher of:</p> <p>(a) 80% of the average closing prices of the existing shares of the Company on the Stock Exchange on five trading dates immediately preceding the date of grant of such option; and</p> <p>(b) the nominal value thereof.</p> |
| 9. | The remaining life of the Scheme | The Scheme will expire on 21 December 2003. |

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SHARE OPTION SCHEME (continued)

On 1 September 2001, amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "New Rules") on share option schemes came into effect. If the Company wishes to continue to grant options under any share option scheme on or after 1 September 2001, it must also comply with the new requirements set out in the New Rules. However, all options granted prior to the coming into effect of the said amendments will remain in full force and effect.

The following shows the particulars of the share options of the Company granted to the directors, executives and employees of the Group that are required to be disclosed under Rules 17.07 of Chapter 17 and Rules (13)(1)(b) of Appendix 16 of the Listing Rules:

	No. of options outstanding at the beginning of the year	No. of options outstanding at the end of the year	Date granted	Vesting Period	Period during which options exercisable	Price per share on exercise of options
Directors						
Wong Chi Keung, Dickie	2,000,000	2,000,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860
Continuous contract employees, excluding directors	100,000	100,000	4 July 1994	4 July 1994 to 4 Jan 1997	4 Jan 1995 to 3 July 2004	HK\$1.8288
	190,000	190,000	16 July 1996	16 July 1996 to 16 July 1999	16 Jan 1997 to 15 July 2006	HK\$0.9488
	300,000	300,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860

No options expired, were granted, exercised or cancelled during the year.

CONNECTED TRANSACTIONS

The related party transactions entered by the Group during the year ended 31 December 2001, as disclosed in notes 24(a) to (c), constitute connected transactions requiring press announcement under Chapter 14 of the Rules governing the Listing of Securities of the Stock Exchange ("Listing Rules"). Details of these transactions as disclosed in notes 24 (a) and (c) have been disclosed in the press announcement of the Company dated 4 December 2000. Details of the transaction as disclosed in note 24 (b) have been disclosed in the press announcement dated 26 January 2000 and 8 November 2000.

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PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company has not redeemed any of the Company's share capital. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Code of Best Practice has been complied with by the Company during the year except that for the period from 1 January 2001 to 24 May 2001, the non-executive directors were not appointed for a specific term as recommended under Appendix 14 of the Listing Rules Guidelines.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors, namely Mr. Lee Ka Sze, Carmelo and Mr. Wong Wai Kwong, David. The function of the Audit Committee is to assist the Board of Directors in providing an independent review of the effectiveness of the financial reporting process and internal control system of the Company.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board
Wong Chi Keung, Dickie
Managing Director

Hong Kong, 12 April 2002