

REPORT OF THE DIRECTORS

For the year ended 31st December 2001

(Expressed in Hong Kong Dollars)

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are property development, property investment, hotel and restaurant operation, trading of building materials, share investment, provision of management and maintenance services, property management and insurance agency.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement. Dividends paid and proposed for the year are set out in note 11 to the financial statements.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 25 to the financial statements.

FIVE YEARS' FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out in Appendix II.

FIXED ASSETS

The movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

Details of the major interests in properties of the Group at 31st December 2001 are set out in Appendix I.

SHARE CAPITAL

The movements in share capital of the Company during the year are set out in note 24 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31st December 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

SHARE OPTION SCHEME

In accordance with the Company's Executive Share Option Scheme (the "Scheme"), which was adopted pursuant to an ordinary resolution passed on 10th June 1999, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. Pursuant to an ordinary resolution passed on 20th December 2001, certain terms of the Scheme were amended with its name changed to Great Eagle Holdings Limited Share Option Scheme.

Summary of the Scheme

1. The purpose of the Scheme is to motivate officers, employees, associates, agents and contractors of the Company or any subsidiary and to allow them to participate in the growth of the Company.
2. Participants of the Scheme include any person the Board may select to be offered an option, subject to compliance with applicable laws, including, without limitation, any full-time or part-time employee of the Company or any subsidiary, any executive or non-executive director of the Company or any subsidiary and any associate, agent or contractor of the Company or any subsidiary.
3. The maximum number of shares of \$0.50 each of the Company (the "Shares") in respect of which options may be granted (together with options exercised and options then outstanding) under the Scheme, when aggregated with any number of Shares subject to any other schemes, will be such number of Shares as shall represent 10% of the issued share capital of the Company on the date of adoption of the Scheme. Excluding the number of Shares to be issued upon exercise of the outstanding options granted under the previous share option scheme, the total number of Shares available for issue under the Scheme is 51,862,853 Shares, representing approximately 9% of the Company's issued share capital as at 26th March 2002, the latest practicable date before the date of despatch of the 2001 annual report.
4. No option may be granted to any one Participant under the Scheme which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted and to be granted to him in any 12-month period up to the proposed date of the latest grant exceeding 1% of the Company's Shares in issue.
5. The period within which the Shares must be taken up under an option is 36 months commencing on the expiry of 24 months after the date upon which the option is deemed to be granted and accepted and expiring on the last day of the 36 months period.

SHARE OPTION SCHEME (Cont'd)

Summary of the Scheme (Cont'd)

6. The minimum period within which an option must be held before it can be exercised is the 24 months referred to in paragraph (5) above.
7. Any participant who accepts an offer of the grant of an option in accordance with the terms of the Scheme shall pay to the Company \$1.00 by way of consideration for the grant thereof within a period of 28 days from the date on which an option is offered to the participant.
8. The subscription price, the price per Share at which a grantee may subscribe for Shares on the exercise of an option, shall be the higher of (i) the last dealt price of the Shares quoted in The Stock Exchange of Hong Kong Limited's (the "Stock Exchange") daily quotations sheet on the date of offer of an option, which must be a business day (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Stock Exchange Listing Rules")), and (ii) the average of the last dealt prices of the Shares quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the said offer date, provided that the subscription price shall in no event be less than the nominal value of a Share.
9. The Scheme has a life of 10 years and will expire on 10th June 2009.

Particulars of share options granted to the Company's employees (including Executive Directors) as required to be disclosed according to the Stock Exchange Listing Rules are as follows:

	No. of Options	No. of Shares Comprising the Options	Date of Grant	Vesting Period	Exercise Period	Subscription Price per Share (\$)
Outstanding Options at 01/01/2001	24	799,000	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
	27	670,000	15/04/1997	15/04/1997 – 15/04/2002	16/04/1999 – 15/04/2002	21.519
	19	1,704,000	22/01/1998	22/01/1998 – 22/01/2003	23/01/2000 – 22/01/2003	6.912
	31	541,000	12/03/1999	12/03/1999 – 12/03/2004	13/03/2001 – 12/03/2004	7.020
	38	729,000	14/02/2000	14/02/2000 – 14/02/2005	15/02/2002 – 14/02/2005	10.116
	139	4,443,000				

SHARE OPTION SCHEME (Cont'd)

	No. of Options	No. of Shares Comprising the Options	Date of Grant	Vesting Period	Exercise Period	Subscription Price per Share (\$)
Options Granted	45	1,110,000	16/01/2001	16/01/2001 – 16/01/2006	17/01/2003 – 16/01/2006	13.392
Options Exercised	(2)	(93,000)	22/01/1998	22/01/1998 – 22/01/2003	23/01/2000 – 22/01/2003	6.912
	(8)	(32,000)	12/03/1999	12/03/1999 – 12/03/2004	13/03/2001 – 12/03/2004	7.020
Options Cancelled	(1)	(16,000)	15/04/1997	15/04/1997 – 15/04/2002	16/04/1999 – 15/04/2002	21.519
	(1)	(6,000)	14/02/2000	14/02/2000 – 14/02/2005	15/02/2002 – 14/02/2005	10.116
	(1)	(6,000)	16/01/2001	16/01/2001 – 16/01/2006	17/01/2003 – 16/01/2006	13.392
Options Lapsed	(24)	(799,000)	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
	147	4,601,000				
Outstanding Options at 31/12/2001	26	654,000	15/04/1997	15/04/1997 – 15/04/2002	16/04/1999 – 15/04/2002	21.519
	17	1,611,000	22/01/1998	22/01/1998 – 22/01/2003	23/01/2000 – 22/01/2003	6.912
	23	509,000	12/03/1999	12/03/1999 – 12/03/2004	13/03/2001 – 12/03/2004	7.020
	37	723,000	14/02/2000	14/02/2000 – 14/02/2005	15/02/2002 – 14/02/2005	10.116
	44	1,104,000	16/01/2001	16/01/2001 – 16/01/2006	17/01/2003 – 16/01/2006	13.392
	147	4,601,000				

SHARE OPTION SCHEME (Cont'd)

Notes:

- (i) Options granted in the years of 1996 to 1999 were granted under the previous Executive Share Option Scheme which expired on 16th March 1999. Options granted in 2000 and 2001 were granted under the Scheme adopted on 10th June 1999.
- (ii) Consideration paid for each grant of option was \$1.00.
- (iii) The closing price of Shares quoted on the Stock Exchange on 15th January 2001, being the date immediately before the date (16th January 2001) on which share options were granted, was \$15.45.
- (iv) The weighted average closing price of Shares immediately before the dates on which the options were exercised during the year was \$11.29.
- (v) Value of the share options granted during the year is not disclosed as such value was considered immaterial as compared to the total market value of Shares in issue.

DIRECTORS

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

Mr. LO Ying Shek
 Madam LO TO Lee Kwan
 Dr. LO Ka Shui
 Mr. LO Kai Shui
 Mr. Brian Shane McELNEY*
 Mr. CHENG Hoi Chuen, Vincent*
 Professor WONG Yue Chim, Richard*
 Mr. LO Hong Sui, Antony
 Madam LAW Wai Duen
 Mr. LO Hong Sui, Vincent
 Dr. LO Ying Sui, Archie
 Mr. KAN Tak Kwong

**Independent Non-Executive Directors*

In accordance with the Company's Bye-Laws, Mr. LO Kai Shui, Mr. LO Hong Sui, Vincent and Mr. CHENG Hoi Chuen, Vincent shall retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The term of office of each Independent Non-Executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31st December 2001, the interests of the Directors and their associates in the securities of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance") were as follows:

	Name of Director	Number of shares held				Total
		Personal interests	Family interests	Corporate interests	Other interests	
The Company	LO Ying Shek	4,994,725	-	-	-	4,994,725
	LO TO Lee Kwan	-	-	-	-	-
	LO Ka Shui	6,006,711	-	6,636,557	298,561,042	311,204,310
				Note (5)	Note (1)	
	LO Kai Shui	-	-	671,523	298,561,042	299,232,565
				Note (6)	Note (1)	
	Brian Shane McELNEY	14,000	-	-	-	14,000
	CHENG Hoi Chuen, Vincent	-	10,000	-	-	10,000
	WONG Yue Chim, Richard	-	-	-	-	-
	LO Hong Sui, Antony	2,729	-	-	-	2,729
	LAW Wai Duen	238,402	-	-	298,561,042	298,799,444
					Note (1)	
	LO Hong Sui, Vincent	276	-	-	-	276
	LO Ying Sui, Archie	3,805,046	3,662	300,000	298,561,042	302,669,750
			Note (7)	Note (1)		
KAN Tak Kwong	314,503	-	-	-	314,503	
Subsidiary company						
Century Faith Investment Limited (In Memers' Voluntary Winding Up)	LO Hong Sui, Vincent	-	-	2	-	2
				Note (8)		

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ASSOCIATED CORPORATIONS (Cont'd)

Particulars of share options granted to Directors (some are also substantial shareholders) under the Company's share option schemes as required to be disclosed according to the Stock Exchange Listing Rules are as follows:

LO Ying Shek

	No. of Options	No. of Shares Comprising the Options	Date of Grant	Vesting Period	Exercise Period	Subscription Price per Share (\$)
Outstanding Options						
at 01/01/2001	1	150,000	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
	1	120,000	15/04/1997	15/04/1997 – 15/04/2002	16/04/1999 – 15/04/2002	21.519
	1	300,000	22/01/1998	22/01/1998 – 22/01/2003	23/01/2000 – 22/01/2003	6.912
	1	120,000	12/03/1999	12/03/1999 – 12/03/2004	13/03/2001 – 12/03/2004	7.020
	1	130,000	14/02/2000	14/02/2000 – 14/02/2005	15/02/2002 – 14/02/2005	10.116
	5	820,000				
Options Granted	1	180,000	16/01/2001	16/01/2001 – 16/01/2006	17/01/2003 – 16/01/2006	13.392
Options Exercised	Nil	N/A	N/A	N/A	N/A	N/A
Options Cancelled	Nil	N/A	N/A	N/A	N/A	N/A
Options Lapsed						
on 09/05/2001	(1)	(150,000)	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
Outstanding Options						
at 31/12/2001	5	850,000				

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ASSOCIATED CORPORATIONS (Cont'd)

LO Ka Shui

	No. of Options	No. of Shares Comprising the Options	Date of Grant	Vesting Period	Exercise Period	Subscription Price per Share (\$)
Outstanding Options						
at 01/01/2001	1	150,000	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
	1	120,000	15/04/1997	15/04/1997 – 15/04/2002	16/04/1999 – 15/04/2002	21.519
	1	300,000	22/01/1998	22/01/1998 – 22/01/2003	23/01/2000 – 22/01/2003	6.912
	1	120,000	12/03/1999	12/03/1999 – 12/03/2004	13/03/2001 – 12/03/2004	7.020
	1	130,000	14/02/2000	14/02/2000 – 14/02/2005	15/02/2002 – 14/02/2005	10.116
	5	820,000				
Options Granted	1	180,000	16/01/2001	16/01/2001 – 16/01/2006	17/01/2003 – 16/01/2006	13.392
Options Exercised	Nil	N/A	N/A	N/A	N/A	N/A
Options Cancelled	Nil	N/A	N/A	N/A	N/A	N/A
Options Lapsed						
on 09/05/2001	(1)	(150,000)	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
Outstanding Options						
at 31/12/2001	5	850,000				

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ASSOCIATED CORPORATIONS (Cont'd)

LO Kai Shui

	No. of Options	No. of Shares Comprising the Options	Date of Grant	Vesting Period	Exercise Period	Subscription Price per Share (\$)
Outstanding Options						
at 01/01/2001	1	150,000	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
	1	120,000	15/04/1997	15/04/1997 – 15/04/2002	16/04/1999 – 15/04/2002	21.519
	1	300,000	22/01/1998	22/01/1998 – 22/01/2003	23/01/2000 – 22/01/2003	6.912
	1	120,000	12/03/1999	12/03/1999 – 12/03/2004	13/03/2001 – 12/03/2004	7.020
	1	130,000	14/02/2000	14/02/2000 – 14/02/2005	15/02/2002 – 14/02/2005	10.116
	5	820,000				
Options Granted	1	180,000	16/01/2001	16/01/2001 – 16/01/2006	17/01/2003 – 16/01/2006	13.392
Options Exercised	Nil	N/A	N/A	N/A	N/A	N/A
Options Cancelled	Nil	N/A	N/A	N/A	N/A	N/A
Options Lapsed						
on 09/05/2001	(1)	(150,000)	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
Outstanding Options						
at 31/12/2001	5	850,000				

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ASSOCIATED CORPORATIONS (Cont'd)

KAN Tak Kwong

	No. of Options	No. of Shares Comprising the Options	Date of Grant	Vesting Period	Exercise Period	Subscription Price per Share (\$)
Outstanding Options						
at 01/01/2001	1	60,000	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
	1	50,000	15/04/1997	15/04/1997 – 15/04/2002	16/04/1999 – 15/04/2002	21.519
	1	450,000	22/01/1998	22/01/1998 – 22/01/2003	23/01/2000 – 22/01/2003	6.912
	1	25,000	12/03/1999	12/03/1999 – 12/03/2004	13/03/2001 – 12/03/2004	7.020
	1	50,000	14/02/2000	14/02/2000 – 14/02/2005	15/02/2002 – 14/02/2005	10.116
	5	635,000				
Options Granted	1	130,000	16/01/2001	16/01/2001 – 16/01/2006	17/01/2003 – 16/01/2006	13.392
Options Exercised	Nil	N/A	N/A	N/A	N/A	N/A
Options Cancelled	Nil	N/A	N/A	N/A	N/A	N/A
Options Lapsed						
on 09/05/2001	(1)	(60,000)	08/05/1996	08/05/1996 – 08/05/2001	09/05/1998 – 08/05/2001	19.584
Outstanding Options						
at 31/12/2001	5	705,000				

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ASSOCIATED CORPORATIONS (Cont'd)

Other than as disclosed above, none of the Directors nor their associates had any interest in any securities of the Company or its associated corporations as defined in the SDI Ordinance. Furthermore, none of the Directors nor any of 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at 31st December 2001, the following Shareholders, not being Directors of the Company, were recorded in the register kept pursuant to Section 16(1) of SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company:

Name of Shareholder	Number of shares	Notes
LO Hung Suen	298,561,042	(1)
LO Wai Ki, Gwen	301,640,070	(1)
Shui Sing Company, Limited	81,300,957	(2)
Galtee Investment Limited	93,702,380	(2)
Shui Sing Holdings Limited	248,306,504	(3)
Shui Sing (BVI) Limited	248,306,504	(3)
HSBC Group*	298,835,042	(4)

* HSBC Group included HSBC Holdings plc and its subsidiaries, namely, HSBC Finance (Netherlands), HSBC Holdings B.V., HSBC Investment Bank Holdings B.V., HSBC International Trustee Limited, The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited, HSBC Investment Bank Holdings plc, HSBC Asset Management Limited, HSBC Asset Management (Europe) Limited and HSBC Asset Management (Taiwan) Limited.

Notes:

- (1) The 298,561,042 shares of Dr. LO Ka Shui, Mr. LO Kai Shui, Madam LAW Wai Duen, Dr. LO Ying Sui, Archie and Madam LO Hung Suen and 298,561,042 of the 301,640,070 shares of Madam LO Wai Ki, Gwen were the same parcel of shares.
- (2) The 81,300,957 shares held by Shui Sing Company, Limited and the 93,702,380 shares held by Galtee Investment Limited duplicated with the interests described in Note (3). Both of these companies were direct wholly-owned subsidiaries of Shui Sing (BVI) Limited which was a direct wholly-owned subsidiary of Shui Sing Holdings Limited.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY (Cont'd)

- (3) These 248,306,504 shares held by Shui Sing Holdings Limited and Shui Sing (BVI) Limited were the same parcel of shares and were duplicated in the interests described in Note (1).
- (4) 298,561,042 shares of the 298,835,042 shares were the same parcel of shares as described in Note (1). HSBC International Trustee Limited ("HKIT"), as trustee of a discretionary trust in which the persons mentioned in Note (1) are the beneficiaries, were interested and/or deemed to be interested in the said 298,561,042 shares. HKIT was also the trustee of other discretionary trusts which was holding the remaining shares.
- (5) The 6,636,557 shares were held by a company in which Dr. LO Ka Shui had entire interest.
- (6) The 671,523 shares were held by a company in which Mr. LO Kai Shui had entire interest.
- (7) The 300,000 shares were held by a company in which Dr. LO Ying Sui, Archie had entire interest.
- (8) The 2 shares in Century Faith Investment Limited (In Members' Voluntary Winding Up) were held by a company in which Mr. LO Hong Sui, Vincent was interested.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under connected transactions below, no contracts of significance to which the Company or any of 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.

CONNECTED TRANSACTIONS

Mongkok Urban Renewal Scheme

Supplemental Agreement to Site B Foundation Contract

Renaissance City Development Company Limited (the "Developer"), a wholly-owned subsidiary of the Company, entered into a Foundation Contract dated 21st December 1999 (the "Foundation Contract") whereby Sun Fook Kong Holdings Limited ("SFK") was appointed to carry out certain foundation works for Site B of the Mongkok project for a total consideration of approximately \$139.61 million. As the transaction constituted a connected transaction for the Company, under the Stock Exchange Listing Rules, an announcement was made on 21st December 1999 and the transaction was disclosed in the 1999 Annual Report.

Due to extreme site difficulties, it was necessary to redesign certain parts of the works. For this purpose, a Supplemental Agreement dated 7th September 2001 (the "Supplemental Agreement") was made between the Developer and SFK whereby SFK was given an extension time of 311 days and paid an additional sum of approximately \$29 million.

CONNECTED TRANSACTIONS (Cont'd)

Mongkok Urban Renewal Scheme (Cont'd)

The contract sum of approximately \$29 million under the Supplemental Agreement and the aggregate contract sum of \$169 million under the Foundation Contract as supplemented by the Supplemental Agreement represented 0.17% and 0.97% respectively of the audited consolidated net tangible asset value of the Company as at 31st December 2000. An announcement was made on 7th September 2001. Almost all of the works under the Foundation Contract as supplemented by the Supplemental Agreement was completed in November 2001 (and superstructure work was commenced in December 2001) but certain minor outstanding works remain to be completed by the end of March 2002.

Main Contract

By an agreement dated 12th November 2001 (the "Main Contract"), the Developer appointed SFK as the main contractor for construction of the superstructure of the Mongkok project comprising an office/retail/hotel complex and associated basement excavation for the retail portion for a consideration of \$3,110 million. The works under the Main Contract were expected to be completed by December 2003.

As the contract sum of \$3,110 million represented approximately 17.37% of the consolidated net tangible asset value of the Company as at 30th June 2001, the transaction (the "Transaction") contemplated by the Main Contract constituted a discloseable transaction for the Company under the Stock Exchange Listing Rules.

As at 9th November 2001, certain members of the Lo Ying Shek family and their related trusts and companies (the "LYS Group") were interested in shares representing in aggregate approximately 62.48% of the issued shares of the Company. SFK was owned as to 95.92% and controlled by certain members of the LYS Group. In view of the interest of the LYS Group in the Agreement, the Transaction constituted connected transactions for the Company under the Stock Exchange Listing Rules and was subject to the approval by the independent shareholders at a special general meeting.

An announcement for the Transaction was made on 12th November 2001 and a circular to shareholders dated 1st December 2001 containing detail of the Transaction and a notice convening a special general meeting on 20th December 2001 was issued to shareholders of the Company. The Transaction was approved by the independent shareholders of the Company at the said special general meeting.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Except for the Great Eagle Holdings Limited Share Option Scheme (formerly known as Executive Share Option Scheme) established by the Company, at no time during the year was the Company or any of its 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 debentures of, the Company or any other body corporate.

SERVICE CONTRACTS

There is no service contract with a Director which is not determinable by the Company within one year without payment of compensation (other than statutory compensations).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws although there is no statutory restriction against such rights under the laws in Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of total sales and purchases respectively.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st December 2001 with the Code of Best Practice as set out in Appendix 14 of the Stock Exchange Listing Rules.

DONATIONS

Donations made by the Group for charitable and other purposes amounted to \$252,950.

AUDITORS

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

LO Ying Shek

Chairman

Hong Kong, 12th March 2002