

**(b) Directors' right to acquire shares** Pursuant to the Pre-Listing Share Option Scheme adopted by the Company on 7 June 2001 (the "Pre-Listing Share Option Scheme"), as described in Appendix VI of the prospectus dated 19 June 2001 issued by the Company ("Prospectus"), the following Directors have been granted options to acquire for shares in the Company (the "Options") as set out below:

Name of Directors	Number of Options granted and outstanding at 31 December 2001	Nature of interest
John CHAN Cho Chak	2,380,000	Personal
Norman LEUNG Nai Pang	2,380,000	Personal
Winnie J. NG	3,380,000	Personal
MAK Chun Keung	2,380,000	Personal
Amanda LUI Yee Fai	2,380,000	Personal
James Conrad LOUEY	128,000	Personal

The exercise period for Directors who have been granted Options under the Pre-Listing Share Option Scheme shall be two years commencing six months from 28 June 2001, the date on which the shares are listed on the Main Board of the Stock Exchange (the "Listing Date"), except that for Directors who have been granted 1,000,000 or more Options under the Pre-Listing Share Option Scheme, they could (a) during the period from the beginning of the seventh month up to the end of the twelfth month from the Listing Date exercise up to 50% of the number of Options that they have been granted under the Pre-Listing Share Option Scheme, and (b) exercise the remaining unexercised Options after the end of the twelfth month from the Listing Date up to the end of exercise period. The Options granted to the above Directors are at the exercise price of HK\$1.80 per share.

The Options granted are not recognised in the financial statements until they are exercised.

### (c) Directors' interests in associated corporation

Name of Directors	Name of associated corporation	Number of shares in associated corporation				Total
		Personal interests	Family interests	Corporate interests	Other interests	
John CHAN Cho Chak	KMB	2,000	–	–	–	2,000
Winnie J. NG <i>(Note 1)</i>	KMB	25,200	–	–	19,226,233	19,251,433
James Conrad LOUEY	KMB	7,200	–	–	–	7,200
Anthony NG <i>(Notes 1&amp;2)</i>	KMB	233,594	–	1,774,376	19,226,233	21,234,203

*Notes:*

- Each of Ms Winnie J. NG and Mr Anthony NG has interest, as a potential beneficiary, in certain private trusts which beneficially held 19,226,233 shares in The Kowloon Motor Bus Holdings Limited ("KMB").
- Mr Anthony NG is the beneficial owner of 1/3 of the entire issued share capital in Si Chong which holds 1,774,376 shares in KMB and is deemed to be interested in the same number of shares in KMB held by Si Chong by virtue of the SDI Ordinance.

Save as disclosed herein, at 31 December 2001, none of the Directors had any personal, family, corporate or other interests in the share capital of the Company or its associated corporations as required to be recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange.

**DIRECTORS' SERVICE CONTRACTS** No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

**DIRECTORS' INTERESTS IN CONTRACTS** No contract of significance to which the Company, its holding company or any of its subsidiaries was a party, in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

### SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

At 31 December 2001, the register required to be kept under Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following interests in the Company's issued share capital being 10% or more of the shares in issue:

Name	Note	Number of shares
KMB Resources Limited		720,000,000
KMB	(1)	720,000,000
Sun Hung Kai Properties Limited	(2) & (3)	735,854,000
HSBC Holdings plc	(4)	735,854,000

*Notes:*

(1) As KMB Resources Limited ("KMB Resources") is a wholly-owned subsidiary of KMB, which in turn holds 73.34% of the entire issued share capital in the Company, KMB is deemed to be interested in the same number of shares held by KMB Resources under the SDI Ordinance.

(2) As Sun Hung Kai Properties Limited ("SHKP") holds more than 33% of the issued share capital of KMB, SHKP is deemed to be interested in the same number of shares held by KMB under the SDI Ordinance.

(3) In addition to the deemed interests of shares held by SHKP as set out in Note (2) above, SHKP is deemed to be interested in 15,854,000 shares held through various nominees.

(4) By virtue of the deemed interest held by HSBC Holdings plc ("HSBC") through its indirect wholly-owned subsidiary in the issued share capital of SHKP, HSBC is taken to be interested in 735,854,000 shares held by SHKP under the SDI Ordinance.

**SHARE OPTIONS SCHEMES** On 11 April 2001 and 7 June 2001, the Company's Pre-Listing Share Option Scheme and Share Option Scheme (the "Schemes") were approved by the then shareholders under which the Directors may, at their discretion, offer any employee (including any Director) of the Company or any of its wholly-owned subsidiary options to subscribe for shares in the Company to recognise his/her contributions to the growth of the Group, subject to the terms and conditions stipulated in the Schemes.

At 31 December 2001 the Company has conditionally granted options to 102 persons to subscribe for a total of 28,579,000 shares (representing approximately 2.91% of the total issued share capital of the Company at 31 December 2001) under the Pre-Listing Share Option Scheme at the exercise price of HK\$1.80 per share (representing 20% discount to the issue price of HK\$2.25 per share pursuant to the Global Offering).

The exercise period for grantees who have been granted options under the Pre-Listing Share Option Scheme shall be two years commencing six months from the Listing Date except that for grantees who were granted 1,000,000 or more options to subscribe for shares under the Pre-Listing Share Option Scheme, they could (a) during the period from the beginning of the seventh month up to the end of the twelfth month from the Listing Date exercise up to 50% of the number of options that they have been granted under the Pre-Listing Share Option Scheme, and (b) exercise the remaining unexercised options after the end of the twelfth month from the Listing Date up to the end of the exercise period.

Save for 521,000 options under Pre-Listing Share Option Scheme which had been cancelled as a result of staff resignation, no option has been exercised, cancelled or lapsed during the period from the date of grant to 31 December 2001.

At 31 December 2001, no option has been granted under the Share Option Scheme.

The options granted are not recognised in the financial statements until they are exercised. According to the Black-Scholes model (*Note*), the total value of the options under Pre-Listing Share Option Scheme was estimated at HK\$19,496,000 with the following variables and assumptions:

1. Risk free rate	4.98%, being the approximate yield of 5-year Exchange Fund Note traded on 31 December 2001
2. Expected volatility	50.67%, being the annualised volatility of the closing price of the shares of the Company from the Listing Date to 31 December 2001
3. Expected dividend yield	1.85%, being 2001 prospective dividend yield of the shares of the Company
4. Expected life of the options	2 years
5. Number of outstanding options under Pre-Listing Share Option Scheme	28,058,000

*Note:*

*The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly trade options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option, the Model does not necessarily provide a reliable measure of the fair value of the options.*

**SENIOR MANAGEMENT PROFILES** Brief biographical details of the members of senior management of the Company are set out on pages 31 to 35 of this annual report.

**FINANCIAL SUMMARY** A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 30 of this annual report.

**MAJOR CUSTOMERS AND SUPPLIERS** Purchase attributable to the five largest suppliers and the largest supplier of the Group accounted for 22% and 6% of the value of the Group's total purchases for the year.

Income attributable to the five largest customers and the largest customer of the Group accounted for 44% and 32% of the total income of the Group for the year.

At no time during the year, have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interests in these major customers and suppliers.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

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

**PRE-EMPTIVE RIGHTS** There is no provision for pre-emptive rights under the Company's Bye-Laws and the Law in Bermuda.

**COMPLIANCE WITH THE CODE OF BEST PRACTICE** The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules, except for the paragraph 7 that the independent Non-Executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Bye-Laws of the Company.

**AUDIT COMMITTEE** The audit committee comprises Deputy Chairman and two independent Non-Executive Directors and reports to the Board of Directors. The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group.

**AUDITORS** KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**John CHAN Cho Chak**

Chairman

Hong Kong, 8 March 2002