

## REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their Report and the Audited Statement of Accounts for the financial year ended December 31, 2001.

### Principal Activities and Trading Operations

The principal activity of the Company is investment holding and those of its subsidiaries are set out in Note 33 to the Accounts on pages 71 to 73.

During the financial year, more than 90% of the trading operations of the Company and its subsidiaries in terms of both turnover and operating profit (before borrowing costs) were carried on in Hong Kong. An analysis of the principal activities of the trading operations of the Company and its subsidiaries during the financial year is set out in Note 3 to the Accounts on page 59.

### Subsidiaries

Particulars of the Company's subsidiaries at December 31, 2001 are set out in Note 33 to the Accounts on pages 71 to 73.

### Results, Appropriations and Reserves

The results of the Group and appropriations of profits for the financial year ended December 31, 2001 are set out in the Consolidated Profit and Loss Account on page 48.

Movements in reserves during the financial year are set out in Note 30 to the Accounts on page 69.

### Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is given on page 77.

### Dividend

The Directors will recommend the payment on July 3, 2002 of a final dividend of 2.5 cents per share in respect of the financial year ended December 31, 2001, payable to shareholders on record as at June 6, 2002. This recommendation has been incorporated in the Accounts.

### Property, Plant and Equipment

Movements in property, plant and equipment during the financial year are set out in Note 13 to the Accounts on page 64.

### Bank Loans, Overdrafts and Other Borrowings

Particulars of all bank loans, overdrafts and/or other borrowings of the Company and the Group as at December 31, 2001 were all repayable on demand or within a period not exceeding one year and are set out in Note 23 to the Accounts on page 67.

Details of certain convertible bonds previously issued by the Company are set out in Note 31 to the Accounts on pages 69 and 70.

### Donations

The Group made donations during the financial year totalling HK\$336,000.

## REPORT OF THE DIRECTORS *continued*

### Directors

The Directors of the Company during the financial year were Mr. Gonzaga W. J. Li (resigned on August 23, 2001), Mr. Stephen T. H. Ng, Dr. David K. D. Hsu, Mr. F. K. Hu, Mr. John T. Hung, Mr. Victor C. W. Lo, Mr. Anthony J. N. Russell (retired on May 18, 2001), Dr. Dennis T. L. Sun (appointed on December 27, 2001), Mr. Paul Y. C. Tsui and Sir Gordon Y. S. Wu (appointed on October 24, 2001).

On August 23, 2001, Mr. Gonzaga W. J. Li resigned as Chairman and a Director of the Company, and Mr. Stephen T. H. Ng was elected to succeed Mr. Li as Chairman of the Company.

Subsequent to the year end, Mr. John T. Hung resigned as a Director of the Company with effect from February 1, 2002.

Dr. Dennis T. L. Sun and Sir Gordon Y. S. Wu, being appointed as Directors of the Company after the last Annual General Meeting, are due to retire from the Board in accordance with Article 78 of the Company's Articles of Association, and Mr. F. K. Hu and Mr. Paul Y. C. Tsui are also due to retire from the Board by rotation in accordance with Article 82, at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election.

With the exception of the Chairman of the Company (who is not subject to retirement by rotation under the provisions of the Company's Articles of Association) together with Mr. F. K. Hu, Dr. Dennis T. L. Sun, Mr. Paul Y. C. Tsui and Sir Gordon Y. S. Wu (who are due to retire from the Board at the forthcoming Annual General Meeting as mentioned above), the remaining two present Directors would continue to serve on the Board for a term of one year and would become due to retire from the Board by rotation in 2003 in accordance with Article 82 of the Company's Articles of Association.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation.

### Directors' Interests in Shares

At December 31, 2001, Directors of the Company had the following beneficial interests in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")):

	No. of Ordinary Shares	Nature of Interest
<b>The Company</b>		
Mr. Stephen T. H. Ng	750,000	Personal interest
<b>The Wharf (Holdings) Limited</b>		
Mr. Stephen T. H. Ng	430,057	Personal interest
<b>Harbour Centre Development Limited</b>		
Mr. F. K. Hu	50,000	Corporate interest

*Note: The 50,000 shares regarding 'Corporate Interest' in which Mr. F. K. Hu was taken to be interested as stated above was the interest held by a corporation in general meetings of which Mr. Hu was either entitled to exercise (or was taken under the SDI Ordinance to be able to exercise) or control the exercise of one-third or more of the voting power.*

As at December 31, 2001, a Director of the Company had the following personal interests in options to subscribe for ordinary shares of the Company granted under the Share Option Scheme of the Company:

Name of Director	No. of ordinary shares	Date granted	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options	Consideration paid for the options granted
Mr. Stephen T. H. Ng:	(i) 1,500,000	Feb 08, 2000	01/04/2001 to 31/12/2009	HK\$10.49	HK\$10
	(ii) 300,000	Feb 19, 2001	01/07/2002 to 31/12/2003	HK\$3.30	HK\$10
	(iii) 800,000	Feb 19, 2001	01/07/2002 to 31/12/2005	HK\$3.30	HK\$10

Save as disclosed above, as recorded in the register kept by the Company under section 29 of the SDI Ordinance in respect of information required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the SDI Ordinance or to the Model Code for Securities Transactions by Directors of Listed Companies:

- (i) there were no interests held as at December 31, 2001 by any Directors and Chief Executive of the Company in securities of the Company and its associated corporations (within the meaning of the SDI Ordinance), and
- (ii) there existed during the financial year no rights to subscribe for equity or debt securities of the Company which were held by any Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial year of any such rights by any of them.

#### Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 10% 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 December 31, 2001 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

Names	No. of Ordinary Shares
(i) Wharf Communications Limited (formerly known as Wharf Communications Investments Limited)	1,600,009,246
(ii) The Wharf (Holdings) Limited	1,600,009,246
(iii) WF Investment Partners Limited	1,602,624,303
(iv) Wheelock and Company Limited	1,603,046,729
(v) Bermuda Trust (Guernsey) Limited	1,603,046,729

*Note: For the avoidance of doubts and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against parties (i) and (ii) above represent the same block of shares and are entirely duplicated or included in the shareholdings stated against party (iii) above, with the same duplication of the shareholdings in respect of (iii) in (iv) and (iv) in (v); all of the abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at December 31, 2001.*

## REPORT OF THE DIRECTORS *continued*

### Interests in Contracts

No contract of significance in relation to the Company's business to which the Company, any subsidiary or holding company of the Company or any subsidiary of the Company's holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

### Management Contracts

On November 1, 1999, the Company entered into a management service agreement with Wharf Limited, a wholly-owned subsidiary of The Wharf (Holdings) Limited ("Wharf"), whereby Wharf Limited agreed to continue to provide or procure the provision of services including corporate secretarial services, treasury services, the provision of services in relation to corporate finance for obtaining borrowings and the provision of management personnel and other general corporate services to the Group after the Company became a publicly-listed company in November 1999. Messrs. G. W. J. Li, S. T. H. Ng and P. Y. C. Tsui were Directors of both the Company and Wharf Limited during the year.

### Arrangements to Purchase Shares or Debentures

At no time during the year was the Company, any of its subsidiaries or its holding company or any subsidiary of that holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception of the options to subscribe for ordinary shares of Wharf and the Company granted under Wharf's Executive Share Incentive Scheme (the "Wharf's Scheme") and the Company's Share Option Scheme (the "Company's Scheme") to certain executives of Wharf or its subsidiaries and certain employees of the Company or its subsidiaries respectively, some of whom were Directors of the Company during the year.

Under the rules of the two schemes (subject to any such restrictions or alterations as may be prescribed or provided under the Listing Rules of the Hong Kong Stock Exchange from time to time in force), shares of Wharf and the Company would be issued at such prices, not being less than 90% and 80% of their respective average closing prices on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of offer of the options, and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant, as determined by the boards of directors of Wharf and the Company respectively. During the year, certain shares of Wharf were allotted and issued to Mr. S. T. H. Ng, a Director of the Company, on his exercise of options under the Wharf's Scheme.

Under the Company's Scheme, certain options to subscribe for 50,034,000 ordinary shares of the Company were granted during the year to Mr. S. T. H. Ng, the Chairman of the Company, as well as to 1,801 full time employees of the Company or its subsidiaries under the Company's Scheme at a subscription price of HK\$3.30 per share.

### Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial year.

### Auditors

The Accounts now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board

**Wilson W. S. Chan**

Secretary

Hong Kong, March 14, 2002