

The Directors have pleasure in submitting their report and the audited financial statements for the year ended 31 December 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 15 on the financial statements on pages 56 and 57.

During the year, more than 90% of the trading operations of the Company and its subsidiaries in terms of both turnover and operating profit were carried on in Hong Kong. The analysis of the principal activities of the operations of the Company and its subsidiaries during the year are set out in note 2 on the financial statements on page 41.

## Subsidiaries

Particulars of the Company's subsidiaries at 31 December 2001 are set out in note 15 on the financial statements on pages 56 and 57.

## Results, Appropriations and Reserves

The results of the Group and appropriations of profit for the year ended 31 December 2001 are set out in the consolidated profit and loss account on page 25 and in note 10 on the financial statements on page 48 respectively.

The first, second and third quarterly interim dividends each of 5 cents per share were paid on 17 August 2001, 30 October 2001 and 8 January 2002 respectively. The Directors now recommend that a final dividend of 5 cents per share in respect of the year ended 31 December 2001 payable on 30 May 2002 to Shareholders on record as at 3 May 2002.

The Directors have also recommended that such final dividend should be paid in cash, with Shareholders being given the option to receive scrip in lieu of cash in respect of part or all of such dividend. The proposed option to elect for scrip in lieu of cash dividend is conditional upon The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares to be issued pursuant to the scrip dividend option.

Movements in reserves during the year are set out in note 23 on the financial statements on pages 64 and 65.

## 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 70.

# Report of the Directors

## Fixed Assets

Movements in fixed assets during the year are set out in note 14 on the financial statements on pages 54 and 55.

## Share Capital

Details of movements in the share capital of the Company are set out in note 22 on the financial statements on page 63.

## Bank Loans, Overdrafts and Other Borrowings

As at 31 December 2001, neither the Company nor the Group had any outstanding bank loans and/or other borrowings.

## Interest Capitalised

No interest was capitalised by the Group during the year.

## Directors

The present Directors are shown on page 2.

The Directors of the Company during the year were as follows:

Mr Cheung Chung Kiu (Chairman)	(appointed on 21 March 2001)
Dr Yeung Hin Chung, John (Managing Director)	(appointed on 1 August 2001)
Mr Yuen Wing Shing	(appointed on 21 March 2001)
Dr Wong Chi Keung	(appointed on 21 March 2001)
Mr Leung Wai Fai	(appointed on 21 March 2001)
Ms Tung Wai Lan, Iris	(appointed on 21 March 2001)
Mr Lee Ka Sze, Carmelo*	(appointed on 21 March 2001)
Mr Wong Wai Kwong, David*	(appointed on 21 March 2001)
Mr Li Wei-Jen, Gonzaga	(resigned on 21 March 2001)
Mr James Seymour Dickson Leach*	(resigned on 21 March 2001)
Mr Hu Fa-Kuang*	(resigned on 21 March 2001)
Mr John Terence Hung	(resigned on 21 March 2001)
Mr Law Yee-Kwan, Quinn	(resigned on 21 March 2001)
Mr Lee Ting-Chang, Peter*	(resigned on 21 March 2001)
Mr Hugh Maurice Victor de Lacy Staunton*	(resigned on 21 March 2001)
Mr Tsui Yiu-Cheung, Paul	(resigned on 21 March 2001)
Mr Peter Alan Lee Vine*	(resigned on 21 March 2001)

(\* Independent non-executive directors)

# Report of the Directors

Mr Yeung Hin Chung, John, being appointed as a Director of the Company after the last annual meeting, retires from the Board in accordance with Article 94 of the Company's Articles of Association. He, being eligible, offers himself for re-election at the forthcoming Annual General Meeting to be held on 29 May 2002.

In accordance with the Articles of Association of the Company, with the exception of the Chairman, all the Directors are subject to retirement by rotation and re-election at annual general meetings. Accordingly, Mr Wong Wai Kwong, David and Ms Tung Wai Lan, Iris retire from the Board by rotation in accordance with Article 82 of the Company's Articles of Association at the forthcoming Annual General Meeting. They, being eligible, offer themselves for re-election.

Particulars of Directors' remuneration are set out in note 5 of the financial statements on page 44.

## **Directors' Service Contracts**

There is no Director proposed for re-election at the forthcoming Annual General Meeting 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 other than statutory compensation.

## **Interest in Contracts**

No contract of significance in relation to the Company's business 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.

## **Arrangements to Purchase Shares or Debentures**

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age 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 Share Option Scheme, details of which are set out in the following section headed "Share Option Scheme".

## **Directors' Interests in Competing Business**

None of the Directors of the Company is interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the business of the Company.

# Report of the Directors

## Compliance with the Code of Best Practice of the Listing Rules

The Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited has been complied with by the Company throughout the year ended 31 December 2001.

## Directors’ Interests in Shares

At 31 December 2001, Directors of the Company had the following beneficial interests in the share capital of the Company:

Name of Director	No. of Ordinary Shares	Nature of Interest
Mr Cheung Chung Kiu	53,460,306	Corporate interest (see note below)

*Note:* The 53,460,306 shares of the Company were beneficially owned by Honway Holdings Limited, a wholly owned subsidiary of Prestige Properties Holdings Limited (“Prestige”). Prestige is owned as to 34.25% by Yugang International Limited (“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.

Other than certain nominee shares in subsidiaries held by Directors in trust for the companies in the Group, no Director held an interest in the share capital of the Company’s subsidiaries during the year.

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

- (i) there were no interests held as at 31 December 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) during the year, there existed 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 of any such rights by any of them.

## Share Option Scheme

The information in relation to share options of the Company disclosed in accordance with the Listing Rules is as follows:

- (1) At 31 December 2001, the Directors and employees of the Company had the following interests in options to subscribe for shares under the Share Option Scheme of the Company:

	No. of options outstanding at the year end	Date granted	Vesting period	Period during which options exercisable	No. of shares acquired on exercise of options during the year	Price per share on exercise of options
Directors	Nil	N/A	N/A	N/A	N/A	N/A
Employees	19,200,000	30 August 2001	Nil	30 August 2001 to 7 May 2011	Nil	HK\$2.492

- (2) Outstanding options at 1 January 2001: Nil
- (3) Options granted during the year ended 31 December 2001:

Date of grant: 30 August 2001 under the Share Option Scheme adopted in May 2001 before the revised Listing Rules (Chapter 17) came into effect

Number of options granted: 19,200,000

Vesting period: Nil

Exercise period: 30 August 2001 to 7 May 2011

Exercise price: HK\$2.492

Closing price of the shares of the Company immediately before the date on which the options were granted: HK\$3.10

The Directors consider that it is not appropriate to state the value of all the options that have been granted pursuant to the Share Option Scheme as any such statement would not be meaningful to the Shareholders due to the application of a number of speculative assumptions in the estimation of the value of the options.

- (4) No options lapsed, were exercised or were cancelled during the year.

# Report of the Directors

## *Information on the Share Option Scheme*

A summary of the Share Option Scheme (the “Scheme”) adopted on 8 May 2001 (prior to the revised Listing Rules (Chapter 17) coming into effect) disclosed in accordance with the Listing Rules is 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 percentage of issued share capital at 12 April 2002 : 19,200,000 shares (9.87%)
- (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 : Commencing on the date upon which the option is accepted and expiring at 7 May 2011.
- (6) The minimum period for which an option must be held before it can be exercised : Nil
- (7) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid : Nominal amount of HK\$1.00 upon acceptance of the option.
- (8) The basis of determining the exercise price : The exercise price is the higher of:
  - (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
  - (b) the nominal value thereof.
- (9) The remaining life of the Scheme : The Scheme will expire on 7 May 2011.

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 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 date of effect of the said amendments will remain in full force and effect.

## Substantial Shareholders' Interests

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:

Names	No. of Ordinary Shares
(i) Honway Holdings Limited	53,460,306
(ii) Prestige Investment Holdings Limited	53,460,306
(iii) Prestige Properties Holdings Limited	53,460,306
(iv) Funrise Limited	53,460,306
(v) Yugang International (BVI) Limited	53,460,306
(vi) Yugang International Limited	53,460,306
(vii) Chongqing Industrial Limited	53,460,306
(viii) Mr Cheung Chung Kiu	53,460,306

### Notes:

- (a) Mr Cheung Chung Kiu's interest has been disclosed under the section headed "Directors' Interests in Shares".
- (b) For the avoidance of doubt and double counting, it should be noted that duplication occurred in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against parties (i) to (viii) above represented the same block of shares; all of the abovenamed parties were deemed to be interested in the same shareholdings under the SDI Ordinance as at 31 December 2001.

## Management Contracts

There was in existence during the year a management contract between the Company and Wheelock Marden and Company Limited ("WM") whereby WM was appointed the Company's general manager from 1 July 1984 to 20 March 2001, whereupon the management contract was terminated.

## 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 year.

## Pension Schemes

(i) Nature of the scheme

The principal pension scheme operated by the Group is a defined contribution scheme for the employees of The Hong Kong School of Motoring Limited.

(ii) Funding of the scheme

The benefits of the scheme were funded in 2001 by a 5% contribution by employees and a 5% contribution by The Hong Kong School of Motoring Limited based on the annual salaries of employees. The contributions have excluded the costs of administration charges and term life assurance.

(iii) Cost of the scheme

The total amount of scheme costs charged to the Group's profit and loss account for the year was HK\$2.3 million. The required contribution rate was calculated as 5% of total salaries payable during the year.

## Mandatory Provident Fund Schemes

As from 1 December 2000, the Group also operates two Mandatory Provident Fund Schemes ("the MPF Schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement scheme. The MPF Schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF Schemes, the employer and its employees are each required to make contributions to the Schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. The total amount of the contributions to the MPF Schemes charged to the Group's profit and loss account for the year was HK\$2.2 million.

## Major Customers and Suppliers

For the year ended 31 December 2001:

- (1) the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and
- (2) the aggregate amount of turnover attributable to the Group's five largest customers applicable to The Hong Kong School of Motoring Limited represented less than 30% of the Group's total turnover.



## Disclosure under Practice Note 19

In relation to the provision of financial assistance by the Company to Western Harbour Tunnel Company Limited (“WHT”), a 37%-owned associate of the Company, as previously disclosed in the Company’s interim report for the half-year period ended 30 June 2001, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 31 December 2001.

Set out below is a proforma balance sheet of WHT as at 31 January 2002 (being the latest practicable date for determining the relevant figures) required to be disclosed under Practice Note 19 of the Listing Rules:

### *Proforma Balance Sheet of WHT*

*at 31 January 2002*

	HK\$'000
Total assets	6,299,305
Other liabilities	(3,989,639)
	<u>2,309,666</u>
Share capital and reserves	(313,026)
Shareholders' loans	2,622,692
	<u>2,309,666</u>
Financial assistance (all being loan advances) given by the Group	<u>970,396</u>

*Note:* The Group’s attributable interest in WHT was 37% as at 31 January 2002.

### *Terms of the Financial Assistance*

The loan of HK\$970.4 million made to WHT bears interest at such rate as may be agreed from time to time among all the shareholders of WHT, currently being fixed at 1% per annum. The loan is repayable on demand as may from time to time be agreed among WHT’s shareholders, subject to a syndicated loan having been fully repaid by WHT before any repayment of the loan except in certain circumstances. No security is provided to the Group for the loan.

## Further Corporate Information

Certain further information in relation to the Group required to be disclosed pursuant to the provisions of the Listing Rules are set out on pages 11 to 14.

## Auditors

The accounts now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for reappointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board  
**Yeung Hin Chung, John**  
*Managing Director*

Hong Kong, 12 April 2002