

# Report of the Directors

The directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2001.

## CHANGE OF NAME OF THE COMPANY

Pursuant to a special resolution passed on 22 June 2001 and approved by the Registrar of Companies of Bermuda and Hong Kong, on 22 June 2001 and 4 July 2001, respectively, the name of the Company was changed from Zhong Hua Land Holdings Limited to Zhong Hua International Holdings Limited.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are primarily property development and investment in the Mainland of the People's Republic of China ("Mainland China"). There were no changes in the nature of the Group's principal activities during the year.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 71.

An interim dividend of HK0.2 cent per ordinary share (adjusted for the subdivision of shares on 9 August 2001) was paid on 21 November 2001. The directors do not recommend the payment of a final dividend for the year.

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION

### Results

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the respective published audited financial statements and reclassified as appropriate, is set out as below. Certain amounts in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements. The effect of this change in accounting policy is that prior year adjustments have been made to reclassify the proposed final dividend of HK\$60,000,000, HK\$17,859,000, HK\$9,536,000 and HK\$7,152,000 for each of the years ended 31 December 1997, 1998, 1999 and 2000, respectively, which was recognised as a current liability at the respective year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Company's and the Group's current liabilities and increase the reserves previously reported as at 31 December 1997, 1998, 1999 and 2000, by HK\$60,000,000, HK\$17,859,000, HK\$9,536,000 and HK\$7,152,000, respectively.

	<b>Year ended 31 December</b>				
	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Turnover	<b>215,764</b>	177,795	147,970	171,534	471,293
Profit before tax	<b>52,609</b>	21,641	12,789	72,619	230,374
Tax	<b>(18,651)</b>	(11,513)	(10,571)	(23,680)	(53,350)
Profit before minority interests	<b>33,958</b>	10,128	2,218	48,939	177,024
Minority interests	<b>(1,893)</b>	-	(38)	(41)	(689)
Net profit from ordinary activities attributable to shareholders	<b>32,065</b>	10,128	2,180	48,898	176,335

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION (Continued)

### Assets, Liabilities and Minority Interests

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> (Restated)	1999 <i>HK\$'000</i> (Restated)	1998 <i>HK\$'000</i> (Restated)	1997 <i>HK\$'000</i> (Restated)
TOTAL ASSETS	<b>1,719,354</b>	1,393,558	1,305,148	1,293,216	1,298,285
TOTAL LIABILITIES	<b>(574,620)</b>	(561,627)	(472,982)	(410,592)	(339,440)
MINORITY INTERESTS	<b>(305,891)</b>	-	-	(1,230)	(1,189)
	<b>838,843</b>	831,931	832,166	881,394	957,656

### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and of the Group, and of the investment properties of the Group during the year are set out in notes 13 and 14, respectively, to the financial statements.

### PROPERTIES UNDER DEVELOPMENT

Details of the properties under development of the Group are set out in note 15 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 26 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

# Report of the Directors

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the financial statements.

## DISTRIBUTABLE RESERVES

At the balance sheet date, the Company's reserves available for cash distribution and distribution in specie were HK\$429,717,000. In addition, in accordance with the Companies Act 1981 of Bermuda (as amended), the Company's share premium account, in the amount of HK\$220,002,000, may be distributed in the form of fully paid bonus shares.

## FINANCIAL RESOURCES AND LIQUIDITY

The Group generally finances its operations with internally generated cash flow and with facilities mainly provided by banks in Mainland China. At the balance sheet date, the Group had cash and bank balances and deposits totalling HK\$59,245,000.

At the balance sheet date, the Group had aggregate bank loans of approximately HK\$193,451,000, of which approximately HK\$147,410,000 is repayable within one year from the balance sheet date. The bank loans may be renewable for a further year.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. The largest and the five largest suppliers accounted for 28% and 74% respectively, of the Group's total purchases for the year.

As far as the directors of the Company are aware, neither the directors, their respective associates nor any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

# Report of the Directors

## DIRECTORS

The directors of the Company during the year were:

*Executive directors:*

Ho Tsam Hung, Chairman

Ho Pak Hung, Deputy Chairman

Ho Kam Hung, Managing Director

Lam Ling Tak

*Independent non-executive directors:*

Tsao Kwang Yung, Peter

Kwok Lam Kwong, Larry

Chan Chiu Kwok, Charles

In accordance with the Company's bye-laws, Messrs. Lam Ling Tak and Chan Chiu Kwok, Charles will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The terms of appointment of the independent non-executive directors will expire when they are required to retire by rotation, in accordance with the Company's bye-laws.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted as at the balance sheet date or at any time during the year and subsequent thereto.

# Report of the Directors

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

## CONNECTED TRANSACTIONS

During the year, pursuant to a tenancy agreement dated 30 May 2000, the Group received rentals from a company beneficially owned by certain directors, details of which are set out in note 32(a) to the financial statements. The independent non-executive directors have reviewed the terms of the tenancy agreements and the rentals paid and confirmed to the board of directors that, in their opinion:

- (i) the terms of the tenancy agreements are:
  - (a) in the ordinary course of business of the Group; and
  - (b) on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (ii) the rentals have been settled in accordance with the terms of the tenancy agreements.

Details of other connected transactions are set out in note 32 to the financial statements.

# Report of the Directors

## DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At the balance sheet date, the interests of the directors in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

### The Company

<b>Name of director</b>	<b>Corporate interests</b>
Ho Tsam Hung	270,000,000 (Note 1)
Ho Pak Hung	270,000,000 (Note 2)
Ho Kam Hung	270,000,000 (Note 3)
Lam Ling Tak	95,738,380 (Note 4)

#### Notes:

- (1) 270,000,000 shares were beneficially held by Ho Tsam Hung through Morgan Estate Assets Limited.
- (2) 270,000,000 shares were beneficially held by Ho Pak Hung through On Tai Profits Limited.
- (3) 270,000,000 shares were beneficially held by Ho Kam Hung through Morcambe Corporation.
- (4) 95,738,380 shares were beneficially held by Lam Ling Tak through Tasman Treasure Profits Limited.

# Report of the Directors

## DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

### ASSOCIATED CORPORATIONS

At the balance sheet date, the following directors of the Company had interests in the non-voting deferred shares in certain of the Company's subsidiaries:

#### (a) Interests in the non-voting deferred shares of Powerex Investment Limited

Name of director	Personal interests	Corporate interests	Total number of shares
Ho Tsam Hung	91	9,997*	10,088
Ho Pak Hung	91	9,997*	10,088
Ho Kam Hung	91	9,997*	10,088
Lam Ling Tak	27	9,997*	10,024

\* These non-voting deferred shares were held by Smart Hero Investment Limited, of which the entire issued share capital of 10,000,000 shares was held by Shun Fat (Holdings) Limited ("Shun Fat") as to 9,986,667 shares, Ho Tsam Hung as to 3,334 shares and Ho Pak Hung, Ho Kam Hung and Lam Ling Tak as to 3,333 shares each. Shun Fat was held equally by Ho Tsam Hung, Ho Pak Hung, Ho Kam Hung and Lam Ling Tak.

#### (b) Interests in the non-voting deferred shares of Dongxum Real Estate Development Company Limited

Name of director	Personal interests	Total number of shares
Ho Tsam Hung	91	91
Ho Pak Hung	91	91
Ho Kam Hung	91	91
Lam Ling Tak	27	27

#### (c) Interests in the non-voting deferred shares of Smart Hero (Holdings) Limited

Name of director	Personal interests	Total number of shares
Ho Tsam Hung	91	91
Ho Pak Hung	91	91
Ho Kam Hung	91	91
Lam Ling Tak	27	27



# Report of the Directors

## DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

### ASSOCIATED CORPORATIONS (Continued)

#### (d) Interests in the non-voting deferred shares of China Land Realty Investment Limited

<b>Name of director</b>	<b>Personal interests</b>	<b>Total number of shares</b>
Ho Tsam Hung	91	91
Ho Pak Hung	91	91
Ho Kam Hung	91	91
Lam Ling Tak	27	27

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 16 to the financial statements.

Save as disclosed above, as at the balance sheet date, none of the directors or their respective associates had, or were deemed to have, any interest in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which required notification, pursuant to Section 28 of the SDI Ordinance (including interests which any such director is deemed or taken to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to Section 29 of the SDI Ordinance, to be recorded in the register maintained by the Company, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests in the shares of the Company and its associated corporations" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

# Report of the Directors

## SHARE OPTION SCHEME

The principal purpose of the share option scheme (the "Scheme") is to recognise the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity.

Eligible participants of the share option scheme are the executive directors and full-time employees of the Group. The share option scheme became effective on 19 September 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. These share options are exercisable at any time for a period from the commencement date and expiring on the last day of the period to be determined by the board of directors, or the tenth anniversary of the adoption date on 19 September 1997, whichever is the earlier.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 129,500,000, after adjustment for the subdivision of shares (the "Subdivision") as detailed in note 26 to the financial statements, which represented approximately 4.3% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 2.5% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted in writing within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 3 years from the date of the commencement of the exercise period of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than 80% of the average closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer or the nominal value of the Company's shares, whichever is higher.

Pursuant to the amendments (the "New Rules") to Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, any options granted after 1 September 2001 must comply with the provisions of the New Rules. If the Company wishes to grant options to its directors or other eligible participants in future, a new share option scheme in compliance with the New Rules is to be approved and adopted by the shareholders of the Company in general meeting. A new share option scheme in compliance with the New Rules is proposed to be adopted in a forthcoming special general meeting.

# Report of the Directors

## SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options					On the Subdivision	At 31 December 2001	Date of grant of share options *	Exercise period of share options	Exercise price of share options** after adjustment	Price of Company's share at grant date of options*** before adjustment
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year					Subdivision	Subdivision
									HK\$	HK\$	
<b>Directors</b>											
Ho Tsam Hung	-	5,500,000	-	-	-	22,000,000	27,500,000	1 June 2001	1 December 2001 to 1 December 2004	0.1395	0.88
Ho Pak Hung	-	5,500,000	-	-	-	22,000,000	27,500,000	1 June 2001	1 December 2001 to 1 December 2004	0.1395	0.88
Ho Kam Hung	-	5,500,000	-	-	-	22,000,000	27,500,000	1 June 2001	1 December 2001 to 1 December 2004	0.1395	0.88
Lam Ling Tak	-	5,500,000	-	-	-	22,000,000	27,500,000	1 June 2001	1 December 2001 to 1 December 2004	0.1395	0.88
	-	22,000,000	-	-	-	88,000,000	110,000,000				
<b>Other employees</b>											
In aggregate	-	3,900,000	-	-	-	15,600,000	19,500,000	1 June 2001	1 December 2001 to 1 December 2004	0.1395	0.88
	-	25,900,000	-	-	-	103,600,000	129,500,000				

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

# Report of the Directors

## SHARE OPTION SCHEME (Continued)

Summary details of the Company's share option scheme are also set out in note 26 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

## COMPETING BUSINESS

Pursuant to Rule 8.10(2) of the Listing Rules, details of the interests held by certain directors in a business, which competes or is likely to compete with the Group, are disclosed as follows:

Certain directors, through a private company, hold interests in a development site located at Jie Fang Nan Road, Yuexiu District, Guangzhou with an intention to develop the site into residential and commercial properties. The site is currently erected with a temporary distribution centre for shoes and related products. The distribution centre is currently managed by a separate management team which is independent from the management of the Group. Given the different location and market segment of the distribution centre, which is situated at Yuexiu District, and of the Group's shopping arcade, which is situated at Haizhu District, the directors consider that competition between the two properties is remote and unlikely.

# Report of the Directors

## PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

### Directors

Name	Age	Position	Number of years of service with the Group	Business experience
Ho Tsam Hung	49	Chairman	11	Over 11 years' experience in property development and investment in Mainland China
Ho Pak Hung	51	Deputy Chairman	11	Over 11 years' experience in property development and investment in Mainland China
Ho Kam Hung	47	Managing Director	11	Over 11 years' experience in property development and investment in Mainland China
Lam Ling Tak	51	Executive Director	11	Over 10 years' experience in property development and investment in Mainland China
Tsao Kwang Yung, Peter	66	Independent Non-Executive Director	4 1/2	Over 31 years' experience in the civil service of the Hong Kong Government
Kwok Lam Kwong, Larry	46	Independent Non-Executive Director	4 1/2	Practising lawyer for over 20 years
Chan Chiu Kwok, Charles	41	Independent Non-Executive Director	4 1/2	Over 17 years' experience in the property field and is a registered professional surveyor

# Report of the Directors

## PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

### Senior management

Name	Age	Position	Number of years of service with the Group	Business experience
Ho Carrie Bernadette	42	Chief Financial Officer and Company Secretary	2	Over 19 years' experience in accounting and corporate finance
Yu Chau Ling, Tracy	33	Group Financial Controller	4 1/2	Over 11 years' experience in accounting and company secretarial affairs
Yam Ka Yin, Rebecca	26	Assistant Financial Controller	1	Over 5 years' experience in accounting affairs
Chun Wai Yin, Alex	36	Accounting Manager	10	Over 14 years' experience in accounting and treasury management

### EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 114 full-time staff in Hong Kong and Mainland China as at 31 December 2001. Employees are remunerated according to the nature of their job and market trends, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Mainland China, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, mandatory provident fund schemes and employees' share option scheme.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, as far as the directors were aware, the register of substantial shareholders maintained by the Company, pursuant to Section 16(1) of the SDI Ordinance, showed that the following shareholder, other than the directors whose interests are disclosed above, had an interest of more than 10% of the nominal value of the Company's issued share capital.

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage of the shares of the Company</b>
High Rank Enterprises Limited	1,140,000,000	38.25%

Save as disclosed above, the Company had not been notified of any other interest representing 10% or more in the issued share capital of the Company at the balance sheet date.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the year.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and supervising the Company's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Ho Kam Hung**  
*Managing Director*

Hong Kong  
25 April 2002