

Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. Other than the acquisition of the business for the provision of telecommunications and information technology related services and products, there were no significant 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 the Group at that date are set out in the financial statements on pages 24 to 93.

An interim dividend of HK\$0.10 per ordinary share was paid on 15 October 2001. The directors recommend the payment of a final dividend of HK\$0.18 per ordinary share in respect of the year, to shareholders on the register of members on 13 June 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, and reclassified and restated as appropriate, is set out on page 94. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT AND HOTEL PROPERTIES

Details of movements in the fixed assets and investment and hotel properties of the Company and the Group during the year are set out in note 14 to the financial statements. Further details of the Group's investment and hotel properties are set out on page 95.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$824,805,000. In addition, the Company's share premium account, in the amount of HK\$4,839,497,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Hu Zhao Guang (*Chairman*)
Mr. Yi Xi Qun (*Vice Chairman*)
Mr. Xiong Da Xin (*Executive Vice Chairman and President*)
Mr. Bai Jin Rong (*Executive Vice President*)
Mr. Liu Kai (*Vice President*) (appointed on 15 January 2001)
Mr. Xing Chun Hua
Mr. Zheng Wan He
Mr. Wei En Hong
Mr. Li Fu Cheng
Mr. Bi Yu Xi
Mr. Li Man (appointed on 30 August 2001)
Mr. Li Zhong Gen
Mr. Qiao Yu (resigned on 30 August 2001)

Non-executive director:

Mr. Fang Fang

Independent non-executive directors:

Mr. Lau Hon Chuen, Ambrose
Mr. Lee Tung Hai, Leo
Mr. Wang Xian Zhang

In accordance with articles 96 and 105(A) of the Company's articles of association, Messrs. Xing Chun Hua, Zheng Wan He, Wei En Hong, Li Fu Cheng, Li Man and Li Zhong Gen will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 15 of the annual report.

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DIRECTORS' SERVICE CONTRACTS

Except for Mr. Liu Kai, all the remaining executive directors proposed for re-election at the forthcoming annual general meeting have service contracts with the Company, each with an unexpired period of 17 months as of 31 December 2001. Mr. Liu Kai has entered into a service contract with the Company for a period of three years commencing on 15 January 2001.

Save as disclosed above, 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

No director had a beneficial interest in any material contract to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the directors and their associates in the issued share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Name of associated corporation	Nature of interest	Number of shares held
Zheng Wan He	Beijing Wangfujing Department Store (Group) Co., Ltd.	Personal	45,738
Li Fu Cheng	Beijing Yanjing Brewery Company Limited	Personal	18,720

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations, as defined in the SDI Ordinance, as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "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 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 holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The directors of the Company may, at their discretion, invite employees, including executive directors, of the Company and any of its subsidiaries, to take up options to subscribe for ordinary shares of the Company at HK\$1 per grant of options. The Scheme became effective on 16 May 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme (the “Maximum Number”) is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. No option may be granted to any one person which if exercised in full would result in the total number of ordinary shares of the Company issued and issuable to him/her under all the options previously granted to him/her and the said option exceeding 25% of the Maximum Number. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 19,950,000, which represented approximately 3.2% of the Company’s shares in issue as at that date.

An option may not be transferred and is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part.

The period during which an option may be exercised will be determined by the directors at their discretion, save that no option may be exercised later than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of an ordinary share; and (ii) 80% of the average of the closing prices of the Company’s ordinary shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option.

The following share options were outstanding under the Scheme as at 31 December 2001:

		Number of options held			
		<i>Note (a)</i>		<i>Note (b)</i>	
		2001	2000	2001	2000
Directors:					
Mr. Hu Zhao Guang		400,000	400,000	3,600,000	3,600,000
Mr. Bai Jin Rong		240,000	240,000	2,160,000	2,160,000
Mr. Xing Chun Hua		240,000	240,000	2,160,000	2,160,000
Mr. Zheng Wan He		200,000	200,000	1,800,000	1,800,000
Mr. Wei En Hong		200,000	200,000	1,800,000	1,800,000
Mr. Li Fu Cheng		200,000	200,000	1,800,000	1,800,000
Mr. Qiao Yu	<i>Note (c)</i>	—	200,000	—	1,800,000
Mr. Li Zhong Gen		200,000	200,000	1,800,000	1,800,000
		1,680,000	1,880,000	15,120,000	16,920,000
Employees in aggregate	<i>Note (d)</i>	320,000	350,000	2,830,000	3,370,000
		2,000,000	2,230,000	17,950,000	20,290,000

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SHARE OPTION SCHEME (continued)

Notes:

- (a) These options were granted on 3 March 1998, at an exercise price per share of HK\$17.03. The cash consideration paid by each director and employee for the options granted was HK\$1 per grant of options. The options may be exercised at any time in the next 10 years commencing on 1 September 1998. No such options were exercised during the year.
- (b) These options were granted on 23 June 1998 at an exercise price per share of HK\$17.03. The consideration paid by each director and employee for the options granted was HK\$1 per grant of options. The options may be exercised in 9 equal portions. The first portion is exercisable at any time commencing on 1 January 1999, and one additional portion becomes exercisable on 1 January in each of the following years. All of the options (to the extent not exercised) will become exercisable on 1 January 2007, and if not otherwise exercised, will lapse on 1 January 2009. No portion of these share options was exercised during the year.
- (c) Owing to the resignation of Mr. Qiao Yu on 30 August 2001, a total of 2,000,000 share options granted to him on 3 March 1998 (200,000 share options) and 23 June 1998 (1,800,000 share options) lapsed on 30 August 2001.
- (d) Owing to the resignation of certain employees during the year, a total of 570,000 share options granted to them on 3 March 1998 (30,000 share options) and 23 June 1998 (540,000 share options) lapsed during the year.

Summary details of the Scheme are also set out in note 36 to the financial statements.

In addition to the above, at 31 December 2001, the interests of the directors of the Company in options to subscribe for shares of Beijing Development (Hong Kong) Limited (“Beijing Development”), an indirectly owned subsidiary of the Company listed on the Stock Exchange, under the share option scheme of Beijing Development, were as follows:

<u>Name of director</u>	<u>Number of options held</u>
Mr. Xiong Da Xin	2,800,000
Mr. Bai Jin Rong	2,600,000

These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per option. The options may be exercised in 2 or 3 equal portions. The first portion is exercisable at any time commencing on 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006. No portion of these share options was exercised during the year.

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 the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are 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 is recorded by the Company in the share premium account. Options which lapse or are cancelled 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 of Beijing Development granted during the year to the directors because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful, and would be misleading.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's share capital
Modern Orient Limited	90,050,000	14.47
Beijing Enterprises Investments Limited (<i>Note a</i>)	384,000,000	61.69
Beijing Holdings Limited (<i>Note b</i>)	391,577,000	62.90

Notes:

- (a) The interest disclosed includes the shares owned by Modern Orient Limited. Modern Orient Limited is held directly as to 100% by Beijing Enterprises Investments Limited. Accordingly, Beijing Enterprises Investments Limited is deemed to be interested in the shares owned by Modern Orient Limited.
- (b) The interest disclosed includes the shares owned by Beijing Enterprises Investments Limited and Modern Orient Limited. Beijing Enterprises Investments Limited, the holding company of Modern Orient Limited, is held indirectly as to 50.37% by Beijing Holdings Limited. Accordingly, Beijing Holdings Limited is deemed to be interested in the shares owned by Beijing Enterprises Investments Limited and Modern Orient Limited.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

The connected transactions undertaken by the Group during the year are set out in note 43 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that these connected transactions entered into by the Group were (i) in the ordinary course of the Group's business either on normal commercial terms, or on terms that are fair and reasonable so far as the Company's shareholders are concerned; (ii) in accordance with the terms of the agreements governing the transactions; and (iii) within the prescribed limits as set out in the waiver letter in respect of connected transactions granted by the Stock Exchange.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 42 to the financial statements.

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LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

In accordance with the disclosure requirements of Paragraph 3.7.1 of Practice Note 19 of The Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), the following disclosures are included in respect of the Company’s syndicated loan facility, which contains covenants requiring performance obligations of the Company’s holding companies.

In 2001, the Company obtained a five-year US\$180 million syndicated loan facility. The loan agreement includes certain conditions imposing specific performance obligations on the Company’s holding companies, among which are the following events which would constitute an event of default on the loan facility:

1. If the beneficial interest in more than 50% of the entire issued share capital of the Company ceases to be owned by persons or entities controlled by the Beijing Municipal People’s Government of China; or
2. If any of the Company’s holding companies stops or suspends payments to its creditors generally, or is unable to or admits its inability to pay its debts as they fall due, or is declared or becomes bankrupt or insolvent.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report except that the independent non-executive directors of the Company are not appointed for specific terms as required by Paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company’s articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises two 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

胡 昭 廣

Chairman

Hong Kong
10 April 2002