

Report of the Directors

The directors herein 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 activities of the Group have not changed during the year.

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries consisted of the manufacture and trading of footwear, and property and investment holding.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area 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 22 to 66.

The directors do not recommend the payment of any dividend in respect of the year.

*Report of the Directors (continued)***SUMMARY FINANCIAL INFORMATION**

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\$41,423,000 and HK\$25,659,000 for the years ended 31 December 1998 and 2000, respectively, which were recognised as a current liability at the respective year ends, 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 1998 and 2000, by HK\$41,423,000 and HK\$25,659,000, respectively.

RESULTS	Year ended 31 December				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	815,503	635,065	487,032	487,465	685,267
PROFIT BEFORE TAX	58,329	37,712	49,822	43,234	21,142
Tax	(5,448)	(1,828)	(2,143)	(692)	(4,681)
PROFIT BEFORE MINORITY INTERESTS	52,881	35,884	47,679	42,542	16,461
Minority interests	5,532	541	630	214	141
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	58,413	36,425	48,309	42,756	16,602
ASSETS AND LIABILITIES	As at 31 December				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)	
TOTAL ASSETS	665,426	973,341	736,556	760,609	762,450
TOTAL LIABILITIES	(223,210)	(245,362)	(166,621)	(136,673)	(162,125)
MINORITY INTERESTS	(5,599)	(13,834)	(14,375)	(22,781)	(30,920)
	436,617	714,145	555,560	601,155	569,405

*Report of the Directors (continued)***FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in the fixed assets and investment properties of the Group are set out in notes 14 and 15 to the financial statements, respectively. Particulars of the Group's investment properties are set out on page 46.

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 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution were HK\$115,500,000 (2000: HK\$112,616,000). In addition, in accordance with the Companies Act 1981 of Bermuda, the Company's share premium account, in the amount of HK\$28,057,000 (2000: HK\$28,057,000), may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$33,800 (2000: HK\$6,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 73% of the total sales for the year and sales to the largest customer included therein amounted to 42%. Purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

None of the directors of the Company or any of their associates, or any of the shareholders of the Company 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 customers.

*Report of the Directors (continued)***DIRECTORS**

The directors of the Company during the year were:

Executive directors:

Chan Ting Chuen

Chu Hon Pong (redesignated as Deputy Chairman and Chief Executive Officer on 25 May 2001 and redesignated as Deputy Chairman and Managing Director on 8 September 2001)

Chang Tsung Yuan

Wong Mo Wah, Gordon

Sy Edward D. (resigned as Managing Director on 6 June 2001 and appointed as an executive director on 8 September 2001)

Law Wai Chung, Allen (resigned on 8 September 2001)

Lai Man Leung (appointed on 13 June 2001 and resigned on 8 September 2001)

Non-executive directors:

Li Kwok Lung, Alfred Ronald

Sze Sun Sun, Tony (resigned as Deputy Chairman on 6 June 2001 and appointed as a non-executive director on 8 September 2001)

Chou Wan Ling, Charlotte (appointed on 8 September 2001)

Alan Kei Yamashita (appointed on 13 June 2001 and resigned on 8 September 2001)

Julius Wang (appointed on 13 June 2001 and resigned on 8 September 2001)

Independent non-executive directors:

Tsao Kwang Yung, Peter

Cheng Kar Shing

Goh Gen Cheung (appointed on 13 June 2001)

Chow King Sing, Gerald (appointed on 17 October 2001)

Lam Ping Cheung (resigned on 6 June 2001)

Subsequent to the balance sheet date, on 21 January 2002, Chan Ting Chuen resigned as the Chairman and was redesignated as a non-executive director of the Company. On 21 January 2002, Chu Hon Pong and Chang Tsung Yuan were redesignated as the Chairman and the Deputy Chairman of the Company, respectively.

In accordance with the Company's bye-laws, Sy Edward D., Sze Sun Sun, Tony, Chou Wan Ling, Charlotte, Goh Gen Cheung, Chow King Sing, Gerald, Chan Ting Chuen and Tsao Kwang Yung, Peter will retire at the forthcoming annual general meeting.

Sze Sun Sun, Tony, Chou Wan Ling, Charlotte, Goh Gen Cheung, Chow King Sing, Gerald and Chan Ting Chuen will offer themselves for re-election at the forthcoming annual general meeting.

Sy Edward D. and Tsao Kwang Yung, Peter informed the Company that they will not offer themselves for re-election as directors at the forthcoming annual general meeting.

*Report of the Directors (continued)***DIRECTORS' SERVICE CONTRACTS**

None of the directors 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 SECURITIES

At 31 December 2001, the interests of the directors of the Company and their associates in the 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 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 the Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

The Company

Name of directors	Notes	Nature of interest	Number of ordinary shares	Number of share options
Chu Hon Pong	1	Corporate	1,000,000	–
Chang Tsung Yuan		Personal	960,000	1,320,000
Wong Mo Wah, Gordon	2	Corporate	1,939,243	–
Chan Ting Chuen	3	Corporate	22,355,957	–
Sze Sun Sun, Tony	3	Corporate	33,854,853	–
	3	Family	80,000	–
Li Kwok Lung, Alfred Ronald		Personal	400,000	–
Chow King Sing, Gerald		Personal	64,000	–

Notes:

1. Cumena Limited, a company wholly owned by Chu Hon Pong, owned 1,000,000 ordinary shares of the Company.
2. W. W. L. Limited, a company wholly owned by Wong Mo Wah, Gordon, owned 1,939,243 ordinary shares of the Company.
3. First Place Limited ("First Place") owned 22,355,957 ordinary shares of the Company. Royal Pacific Limited ("Royal Pacific") and Alexon International Limited ("Alexon International") each held interests in First Place. Chan Ting Chuen was interested in the entire issued share capital of Royal Pacific. Chan Ting Chuen was deemed to be interested in 22,355,957 ordinary shares of the Company by virtue of his interests in Royal Pacific.

Sze Sun Sun, Tony was interested in Alexon International. Maida Holdings Limited ("Maida"), a company wholly owned by Sze Sun Sun, Tony, held 11,498,896 ordinary shares of the Company. Lau Yuk Wah, the spouse of Sze Sun Sun, Tony, held 80,000 ordinary shares of the Company. Sze Sun Sun, Tony was deemed to be interested in 33,934,853 ordinary shares of the Company by virtue of his interests in Alexon International and Maida, and his spouse's interests in the 80,000 ordinary shares of the Company.

*Report of the Directors (continued)***DIRECTORS' INTERESTS IN SECURITIES** *(continued)***Associated corporation**

In addition to the above, as at 31 December 2001, Chang Tsung Yuan had interests in 428,000 non-voting deferred shares of HK\$1.00 each in a subsidiary of the Company, Liang Shing Industries Limited. The rights and restrictions attaching to these non-voting deferred shares are set out in note 19 to the financial statements.

Save as disclosed above, at 31 December 2001, none of the directors of the Company or their associates had any 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 pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in securities" above and "Share option scheme" below, at no time during the year 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 benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 22 October 2001, a new share option scheme (the "New Scheme") was adopted by the Company. The New Scheme replaced the share option scheme adopted on 9 February 1995 (as amended on 9 December 1997) (the "Old Scheme"). After the adoption of the New Scheme, no further options can be granted under the Old Scheme. As at 31 December 2001, there were 1,540,000 share options granted which remained outstanding under the Old Scheme.

The Company operates the New Scheme for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the New Scheme.

Shares which may be issued upon exercise of all options to be granted under the New Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption. The total number of shares available for issue under the New Scheme was 20,541,799 representing approximately 9.9% of the share capital of the Company in issue.

*Report of the Directors (continued)***SHARE OPTION SCHEME** *(continued)*

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the New Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 14 days from the date on which the letter containing the offer is delivered to that participant and the amount payable on acceptance of an offer is HK\$1.00.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the board of directors at the time the option is offered to the participants.

No options may be granted under the New Scheme after the date of the tenth anniversary of the adoption of the New Scheme.

*Report of the Directors (continued)***SHARE OPTION SCHEME (continued)**

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

Name or category of participants	Exercise price per share**	Number of share options					Date of grant of share options*	Exercise period of share options	Price of Company's shares at exercise date of options *** HK\$
		At 1 January 2001	Adjusted during the year@	Exercised during the year	Lapsed during the year	At 31 December 2001			
Directors									
Chang Tsung Yuan	HK\$0.10	33,000,000	(33,000,000)	-	-	-	14 August 2000	14 February 2001 to 13 February 2003	-
	HK\$1.00	-	1,320,000	-	-	1,320,000	14 August 2000	14 February 2001 to 13 February 2003	-
Law Wai Chung, Allen	HK\$0.10	10,000,000	(10,000,000)	-	-	-	14 August 2000	14 February 2001 to 13 February 2003	-
	HK\$1.00	-	400,000	(400,000)	-	-	14 August 2000	14 February 2001 to 13 February 2003	1.59
Lai Man Leung	HK\$0.10	10,000,000	(10,000,000)	-	-	-	14 August 2000	14 February 2001 to 13 February 2003	-
	HK\$1.00	-	400,000	(400,000)	-	-	14 August 2000	14 February 2001 to 13 February 2003	1.65
Options granted in excess of individual limit									
Sy Edward D. #	HK\$0.10	122,816,207	-	-	(122,816,207)	-	14 December 1999	14 June 2000 to 13 June 2002	-
Other employees									
In aggregate	HK\$0.10	75,000,000	(55,300,000)	(3,700,000)	(16,000,000)	-	14 August 2000	14 February 2001 to 13 February 2003	0.07
	HK\$1.00	-	2,212,000	(1,952,000)	(40,000)	220,000	14 August 2000	14 February 2001 to 13 February 2003	1.64
		<u>250,816,207</u>				<u>1,540,000</u>			

@ Adjusted for the capital restructuring as detailed in note 30 to the financial statements.

* The vesting period of the share options is from the date of 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 exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

The number of share options granted to Sy Edward D., a director of the Company, exceeded the individual limit of 1% of the shares of the Company then in issue. All the share options granted to Sy Edward D. were lapsed during the year.

*Report of the Directors (continued)***SHARE OPTION SCHEME** *(continued)*

No share options were granted under the New Scheme and the Old Scheme during the year.

Summary details of the Company's share option scheme are also set out in note 30 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 36 to the financial statements, no director had a significant beneficial interest in any material contract to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS**Executive directors**

Chu Hon Pong, aged 52, joined the Group in 1998 and was redesignated as Deputy Chairman and Managing Director in 2001 and was subsequently redesignated as the Chairman and Managing Director on 21 January 2002. He has over 25 years' experience in international trade, manufacturing, business and industrial management. In the early 80's, he was engaged in business in mainland China and was appointed as the factory manager in a joint venture steel factory in Shenzhen, mainland China. In the early 90's, he was the founder of Vietnam Duty Free Industry. He is the personal assistant to Mr. Robert Miller, Chairman of Search Investment Holdings Limited and is also the Managing Director and Chief Executive Officer of American Dream Parks & Entertainment Limited and Vietnam Duty Free Group. Mr. Chu is an independent non-executive director of DVN (Holdings) Limited. Mr. Chu is also a director of each of Search Pacific Limited ("Search Pacific"), Search Asia Pacific (BVI) Limited ("SAP(BVI)"), and Mercantile Diamond Corporation ("MDC"), all of which are substantial shareholders of the Company under the SDI Ordinance.

Chang Tsung Yuan, aged 54, joined the Group at its inception in 1990 and was redesignated as the Deputy Chairman on 21 January 2002. He is responsible for overseeing the business development and production of the Group. He has more than 25 years' experience in the footwear manufacturing business.

Wong Mo Wah, Gordon, aged 42, joined the Group in 1997 and was appointed an executive director. He holds a Master of Business Administration degree from the University of Southern California. He has over 20 years' experience of securities trading, international property development and investment and holds directorships in a number of private companies in the investment and commercial sectors. He has served for over 19 years as one of the senior executives of an international private investment group based in Hong Kong. Mr. Wong is also a director of each of Search Pacific, SAP(BVI) and MDC, all of which are substantial shareholders of the Company under the SDI Ordinance.

*Report of the Directors (continued)***BIOGRAPHICAL DETAILS OF DIRECTORS** *(continued)***Executive directors** *(continued)*

Sy Edward D., aged 51, joined the Group in 1999. He was formerly Chief Operating Officer of Philippine Commercial International Bank ("PCIB"). Prior to PCIB, Mr. Sy had a long career with Citibank, N.A. from 1974 to 1998 where he held various senior positions including Country Treasurer of Hong Kong, Private Banking Head of Hong Kong, Taiwan and Korea. Mr. Sy received a Bachelor of Science in Industrial Engineering from De La Salle University and a Master of Business Administration from University of California at Los Angeles, U.S.A.

Law Wai Chung, Allen, aged 46, joined the Group in 1997 and resigned as an executive director of the Company on 8 September 2001. He has over 20 years' experience in banking, manufacturing, investment and property development and has participated in a number of corporate restructuring and reorganisations. He is the Chairman of one of the prestigious commercial and residential development in Hong Kong. He has been a director and company secretary of a number of listed companies in Hong Kong and is a fellow of The Hong Kong Institute of Directors.

Lai Man Leung, aged 52, was appointed an executive director of the Company on 13 June 2001 and resigned on 8 September 2001. He graduated from the University of Hong Kong with a Bachelor of Laws Degree in 1973 and has been practicing as a solicitor in Hong Kong for more than 25 years.

Non-executive directors

Chan Ting Chuen, aged 54, joined the Group in 1997. He graduated with a bachelor's degree in Civil Engineering from the University of Hong Kong and has more than 25 years' experience in the construction industry and property development. He is a non-executive director of Wing Shan International Limited, a company listed on the Stock Exchange. Mr. Chan is also a director of each of Royal Pacific Limited, First Dynamic International Limited and Well Success Investment Limited, all of which are substantial shareholders of the Company under the SDI Ordinance.

Li Kwok Lung, Alfred Ronald, aged 49, joined the Group in 1997. He is the Chairman of SPS Group, a Hong Kong based financial services group and brokerage house which is also a member of the Stock Exchange, and of the Hong Kong Futures Exchange Limited. Mr. Li is the Chairman of Momentum Technologies (Holdings) Limited, an information technology solution provider that specializes in customer relationship management software in the banking and finance sector in mainland China and Hong Kong. He is also a co-founder of KLM Capital Group, an international venture capital management firm based in the Silicon Valley (California) with regional offices in Austin (Texas) and Hong Kong. He is also a co-founder and consultant to the Hong Kong law firm, Iu, Lai & Li. Mr. Li is a director of Well Success Investment Limited, which is a substantial shareholder of the Company under the SDI Ordinance.

*Report of the Directors (continued)***BIOGRAPHICAL DETAILS OF DIRECTORS** *(continued)***Non-executive directors** *(continued)*

Sze Sun Sun, Tony, aged 50, joined the Group in 1997 and left in June 2001. He was appointed as non-executive director of the Company in September 2001. He has over 25 years' experience in investment and property development in Hong Kong, mainland China and overseas markets. Mr. Sze is a director of each of Alexon International Limited, First Dynamic International Limited and Well Success Investment Limited all of which are substantial shareholders of the Company under the SDI Ordinance.

Chou Wan Ling, Charlotte, aged 37, was appointed as a non-executive director on 8 September 2001. She is a director of American Dream Parks & Entertainment Limited, American Dream in Shanghai Limited, American Dream Parks & Entertainment Hong Kong Limited and Calexico Enterprises Limited. Ms. Chou received a Bachelor of Arts in Accounting from Queensland University of Technology, Australia and she is also a member of the ASCPA.

Alan Kei Yamashita, aged 51, was appointed a non-executive director of the Company on 13 June 2001 and resigned on 8 September 2001. Mr. Yamashita is Executive Vice President and Chief Investment Officer for Search Investment Group Limited and serves as a Board Member for a number of Search related companies. Prior to Search, he was Managing Director and Head of Asia Pacific Capital Markets for Merrill Lynch from 1995 to 1998, and Executive Director, Goldman Sachs from 1979 to 1995, where his assignments included responsibility for Goldman's Asset Management business in Asia, Fixed Income business in Japan and Commodities Sales and Trading businesses in New York. Mr. Yamashita has over 25 years' experience in financial services and investment management starting in 1977 as Vice President, Standard and Poors Corporation, New York. He received his BA from Yale University (1973) and MPA from Princeton University (1977). He was visiting lecturer at the Chinese University of Hong Kong from 1973 to 1975.

Julius Wang, aged 40, was appointed a non-executive director on 13 June 2001 and resigned on 8 September 2001. Mr. Wang is Senior Vice President, responsible for Search Investment's Hedge Fund portfolio. He has 15 years' career experience in managing private wealth, operating companies, and strategic consulting. He was Managing Director of three operating companies specializing in turnaround situations including a Hong Kong - listed food company, a privately held furniture company in China, and an environmental technology firm in Taiwan. Prior to this service, Mr. Wang spent 2 years in a Boston Consulting Group and began his career with IBM in technology sales. He graduated from University of New Hampshire with a BA in Economics (1982) and from the Harvard Business School with an MBA in Finance (1991).

*Report of the Directors (continued)***BIOGRAPHICAL DETAILS OF DIRECTORS** *(continued)***Independent non-executive directors**

Tsao Kwang Yung, Peter, aged 68, was appointed an independent non-executive director in 1994. He was the former Secretary for Home Affairs in the Hong Kong Government. In 1977, Mr. Tsao was appointed as the special envoy to Geneva and became the head of the Trade and Industry Department in 1979 and 1981, respectively. In 1983, Mr. Tsao headed the Government Information Service, and in 1988 he was appointed as the Secretary for Home Affairs from which post he retired in February 1992. He is currently the Chairman of Prima Consultants Limited and a director of a number of companies in Hong Kong.

Cheng Kar Shing, aged 49, was appointed an independent non-executive director in 1997. He holds a Master degree in Engineering from the University of California in Los Angeles. He has been a director of NWD (Hotels Investments) Limited since 1984 and New World Development Ltd. since 1994. Mr. Cheng is now an Executive Director of New World Infrastructure Limited and New World China Land Limited. He is also a director of Macau Water Supply Co. Limited and Polytown Company Limited.

Goh Gen Cheung, aged 55, was appointed an independent non-executive director on 13 June 2001. He is the Chairman of Prosticks.com Ltd.. He has over 30 years of treasury, finance and banking experience. Mr. Goh is an associate member of the Chartered Institute of Bankers and has a Master degree in Business Administration. Mr. Goh is also an independent non-executive director of several public companies listed on Stock Exchange, and an ex-director of the Hong Kong Futures Exchange Limited (1990–1995).

Chow King Sing, Gerald, aged 45, was appointed an independent non-executive director on 17 October 2001. He is a dental surgeon in private practice in Hong Kong.

Lam Ping Cheung, aged 50, was appointed an independent non-executive director on 21 May 1999 and resigned on 6 June 2001. He is qualified as a solicitor in Hong Kong. He is the founder and senior partner of Messrs. C. L. Chow & Lam, a law firm in Hong Kong. Mr. Lam is also an independent non-executive director of several public listed companies in Hong Kong including Ngai Lik Industrial Holdings Limited, Golden Resources Development International Limited, Kith Holdings Limited, Qualipak International Holdings Limited, Hansom Eastern (Holdings) Limited and China United Holdings Limited.

*Report of the Directors (continued)***SUBSTANTIAL SHAREHOLDERS**

As at 31 December 2001, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name of shareholders	Notes	Number of ordinary shares	
		Direct interest	Deemed interest
Royal Pacific	1	–	22,355,957
Alexon International	1	–	22,355,957
First Place		22,355,957	–
HSBC Holdings plc	2	–	48,566,304
HSBC Finance (Netherlands)	2	–	48,566,304
HSBC Holdings B.V.	2	–	48,566,304
HSBC Investment Bank Holdings B.V.	2	–	48,566,304
HSBC International Trustee Limited	2	–	48,566,304
HSBC Trustee (Cayman) Limited	2	–	48,566,304
The Mountain Trust Company	2	–	48,566,304
Search Investment Office Limited	2	–	48,566,304
Search Mezzanine Investment Limited	2	–	48,566,304
Search Pacific	2	–	48,566,304
SAP(BVI)	2	–	48,566,304
MDC		48,566,304	–

Notes:

- (1) First Place owned 22,355,957 ordinary shares of the Company. Royal Pacific and Alexon International each held interests in First Place.

Accordingly, Royal Pacific and Alexon International were deemed to be interested in the 22,355,957 ordinary shares in the Company held by First Place.

These interests have also been disclosed as corporate interests of Chan Ting Chuen and Sze Sun Sun, Tony, respectively, in the section "Directors' interests in securities" above.

- (2) MDC, a wholly-owned subsidiary of SAP(BVI), held 48,566,304 ordinary shares of the Company. SAP(BVI) was a wholly-owned subsidiary of Search Pacific. Search Mezzanine Investment Limited ("Search Mezzanine"), a wholly-owned subsidiary of Search Investment Office Limited ("Search Investment"), owned more than 33.5% of the issued share capital of Search Pacific. The Mountain Trust Company ("Mountain Trust") owned the entire issued share capital of Search Investment.

By virtue of HSBC Trustee (Cayman) Limited ("HTCL") being the trustee of a discretionary trust, HTCL was taken to be interested in the 48,566,304 ordinary shares of the Company held by MDC. HTCL was a wholly-owned subsidiary of HSBC International Trustee Limited ("HKIT"), which in turn was a wholly-owned subsidiary of HSBC Investment Bank Holdings B.V. ("HSBC Investment"). HSBC Investment was a wholly-owned subsidiary of HSBC Holdings B.V. ("HSBC Holdings"). HSBC Holdings was a wholly-owned subsidiary of HSBC Finance (Netherlands) ("HSBC Finance"), which in turn was a wholly-owned subsidiary of HSBC Holdings plc.

Accordingly, SAP(BVI), Search Pacific, Search Mezzanine, Search Investment, Mountain Trust, HTCL, HKIT, HSBC Investment, HSBC Holdings, HSBC Finance and HSBC Holdings plc were deemed to be interested in the 48,566,304 ordinary shares of the Company held by MDC.

*Report of the Directors (continued)***SUBSTANTIAL SHAREHOLDERS** *(continued)*

Save as disclosed above, at 31 December 2001, no person, other than the directors of the Company and the companies controlled by them, whose interests are set out under the section "Directors' interests in securities", had registered as having an interest of 10% or more in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

USE OF PROCEEDS

The remaining balance of HK\$220,635,000 of the net proceeds of HK\$381,885,000 from the rights issue of 2,817,032,708 of the Company's shares on 10 November and 13 November 1997, and the net proceeds of approximately HK\$109,017,000 from the placement and subscription of the Company's shares in March 2000 were returned to the shareholders of the Company during the year pursuant to special and ordinary resolutions passed on 22 October 2001 as set out in the circular of the Company dated 28 September 2001.

POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group are set out in note 37 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation at the annual general meeting in accordance with the provisions of the Company's bye-laws. The Company has appointed four non-executive directors of the Company as members of the audit committee. The committee was established in December 1998 to assist the board of directors in fulfilling its duties by providing review and supervision of the Company's financial reporting process and internal controls.

*Report of the Directors (continued)***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

Chu Hon Pong

Chairman and Managing Director

Hong Kong
23 April 2002