

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. The principal activities of the principal subsidiaries are set out in note 14 to the financial statements. 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 5 to the financial statements.

Results

The loss of the Group 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 56.

Summary financial information

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements. The results of the Group for the three years ended 31 December 1999 and the assets and liabilities of the Group as at 31 December 1998 and 1997 have been adjusted for the effects of the retrospective changes in accounting policy affecting goodwill as further detailed in notes 2, 4 and 15 to the financial statements.

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Results

	Year ended 31 December				
	2001 HK\$	2000 HK\$	1999 HK\$ (Restated)	1998 HK\$ (Restated)	1997 HK\$ (Restated)
Turnover	99,408,954	109,175,462	113,738,722	134,086,881	202,912,266
Net loss from ordinary activities attributable to shareholders	(18,634,632)	(6,567,759)	(51,687,224)	(46,187,032)	(23,996,238)

Assets and liabilities

	31 December				
	2001 HK\$	2000 HK\$	1999 HK\$	1998 HK\$ (Restated)	1997 HK\$ (Restated)
Total assets	410,960,123	445,655,031	468,408,560	492,179,748	594,332,610
Total liabilities	(10,099,111)	(15,701,903)	(42,096,531)	(10,778,271)	(13,879,533)
Minority interests	(26,392,112)	(28,982,770)	(29,569,370)	(32,971,594)	(39,650,829)
Net assets	374,468,900	400,970,358	396,742,659	448,429,883	540,802,248

Major customers and suppliers

The turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for 44.2% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 16.0% of the Group's total purchases for the year.

To the best knowledge of the directors, none of the directors, their associates, or any shareholders who own more than 5% of the Company's issued share capital had any beneficial interest at any time during the year in the Group's five largest suppliers.

Investment properties and property, plant and equipment

Details of movements in the investment properties and property, plant and equipment of the Company and the Group during the year are set out in notes 12 and 13 to the financial statements, respectively.

Share capital and share options

Details of movements in the share capital and share options of the Company are set out in notes 22 and 28 to the financial statements.

Share premium account

Details of the share premium account of the Company are set out in note 23 to the financial statements.

Capital reserve account

Details of the capital reserve account of the Company and the Group are set out in note 24 to the financial statements.

Investment property revaluation reserve

Details of movements in the Group's investment property revaluation reserve during the year are set out in note 25 to the financial statements.

Directors

The directors of the Company during the year were:

Executive directors:

Dr. Stanley Ho	
Mr. Lawrence Ho	(appointed on 5 November 2001)
Mr. Peter So	(appointed on 5 November 2001)
Mr. Frank Tsui	(appointed on 5 November 2001)
Madam Lucina Laam King Ying	(appointed on 5 November 2001)
Mr. Ho Cheuk Yuet	(appointed on 5 November 2001)
Ms. Pansy Ho	(resigned on 21 November 2001)
Ms. Daisy Ho	(resigned on 21 November 2001)
Mr. Ambrose So	(resigned on 21 November 2001)
Mr. Patrick Huen	(resigned on 21 November 2001)
Mr. Andrew Tse	(resigned on 21 November 2001)
Mr. Anthony Chan	(resigned on 21 November 2001)

Non-executive director:

Madam Winnie Ho Yuen Ki

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Independent non-executive directors:

Sir Roger Lobo

Mr. Robert Kwan

Mr. Roque Choi

Mr. Jose Balcor Hun Prado (resigned on 21 November 2001)

Subsequent to the balance sheet date, on 11 February 2002, Mr. Ho Cheuk Yuet resigned as an executive director of the Company and was appointed as a non-executive director of the Company.

Subsequent to the balance sheet date, on 8 April 2002, Mr. Roque Choi resigned as an independent non-executive director, and on 9 April 2002, Madam Winnie Ho Yuen Ki ceased to be a non-executive director of the Company.

In accordance with article 103 of the Company's articles of association, Sir Roger Lobo will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 94 of the Company's articles of association, any directors appointed during the year shall hold office only until the forthcoming annual general meeting. Accordingly, Mr. Lawrence Ho, Mr. Peter So, Mr. Frank Tsui, Madam Lucina Laam King Ying and Mr. Ho Cheuk Yuet will retire and, being eligible, will offer themselves for re-election at the forthcoming meeting.

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 shares

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

Name of director	Number of ordinary shares held and nature of interests		
	Personal	Family	Corporate*
Dr. Stanley Ho	8,216,185	214,727	1,585,000
Madam Winnie Ho Yuen Ki	82,023	–	–
Mr. Roque Choi	51,733	–	–
Madam Lucina Laam King Ying	148,191	–	–
Mr. Lawrence Ho	–	–	36,525,675

* Dr. Stanley Ho has beneficial interests in Sharikat Investments Ltd. and Dareset Ltd. which beneficially owned 500,000 and 1,085,000 shares, respectively, in the Company.

Mr. Lawrence Ho has beneficial interests in Lasting Legend Limited which beneficially owned 36,525,675 shares in the Company.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' right to acquire shares

Apart from as disclosed under the headings "Directors' interests in shares" 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 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 to acquire such rights in any other body corporate.

Share option scheme

In 1990, the Company adopted a share option scheme (the "Old Scheme") under which the board of directors of the Company may grant options to subscribe for shares in the Company to any eligible employees including the executive directors. The Old Scheme expired on 21 October 2000 and there was no share option outstanding as at 31 December 2001 under the Old Scheme.

Subsequent to 31 December 2001, the Company has operated a new share option scheme (the "New Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, executives and employees of and consultants, professional and other advisers of the Group. The New Scheme became effective on 8 March 2002 following its approval by the Company's shareholders at an extraordinary general meeting on the same date and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the New Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 8 March 2002. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the New Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the New Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. At 31 December 2001, no share options were granted for shares issuable under the New Scheme. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% 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.

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Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon the exercise of all options granted to such person within any 12-month period being more than 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 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 the expiry date of the New Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's share on the date of the offer of the share options.

In the opinion of the directors, the New Scheme adopted complies with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Subsequent to the balance sheet date, an aggregate of 5,343,484 share options of the Company were granted under the New Scheme to certain directors and an employee of the Company.

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 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 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 granted subsequent to the balance sheet date to the directors, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors are unable to arrive at an assessment of the value of these share options.

Directors' interests in contracts

Save as disclosed in note 33 to the financial statements, no director had a significant beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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Substantial shareholders

As at 31 December 2001, according to the register maintained pursuant to Section 16(1) of the SDI Ordinance, the following shareholders were interested in 10% or more of the issued share capital of the Company.

Name	Number of shares of the Company
Shun Tak Shipping Company Limited	26,055,432
Lasting Legend Limited	36,525,675

Save as disclosed herein and other than the interests of the Company's directors and companies controlled by them as set out in the foregoing, the Company's directors and the chief executive of the Company do not know of any person who, as at 31 December 2001, was directly or indirectly interested in 10% or more of the issued share capital of the Company or in any interest which was required to be recorded under Section 16(1) of the SDI Ordinance.

Brief biographical details in respect of directors

Name	Age	Position held	Number of years of service	Business experience
<i>Executive directors:</i>				
Dr. Stanley Ho	80	Chairman	33	The group executive chairman of Shun Tak Holdings Limited, and president of The Real Estate Developers Association of Hong Kong. He is also the managing director of Sociedade Turismo e Diversões de Macau, S.A.R.L., vice chairman of CAM - Macau International Airport Company Limited.
Mr. Lawrence Ho	25	Managing director	0.5	Son of Dr. Stanley Ho. Holder of B.A. (Commerce) from University of Toronto, Canada. An executive director of iAsia Technology Limited, a company listed on the Hong Kong Growth Enterprise Market. Mr. Lawrence Ho has extensive experience in commercial, securities and information technology business.

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Name	Age	Position held	Number of years of service	Business experience
<i>Executive directors (continued):</i>				
Mr. Peter So	49	Director	0.5	Mr. Peter So has extensive experience in business consultancy, financial market and managing listed companies in Hong Kong and England. He is an associate member of Institute of Financial Services and The Chartered Institute of Cost and Management Accountants.
Mr. Frank Tsui	44	Director	0.5	Mr. Frank Tsui has extensive experience in direct investment and merchant banking, with key management responsibilities for investments and operations in the People's Republic of China. He holds the degrees of BBA and MBA from Chinese University of Hong Kong and LLB from University of London, and is a member of the Certified General Accountants' Association of Canada.
Madam Lucina Laam King Ying	58	Director	0.5	Mother of Mr. Lawrence Ho. Madam Lucina Laam King Ying has extensive property investment experience in Hong Kong and Canada.
Ms. Pansy Ho	39	Director	7	Daughter of Dr. Stanley Ho and has extensive experience in the commercial and public relations business. She is also the managing director of Shun Tak Holdings Limited. She resigned as an executive director of the Company on 21 November 2001.

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Name	Age	Position held	Number of years of service	Business experience
<i>Executive directors (continued):</i>				
Ms. Daisy Ho	37	Director	7	Daughter of Dr. Stanley Ho and has extensive experience in the banking business. She is also the deputy managing director and chief financial officer of Shun Tak Holdings Limited. She resigned as an executive director of the Company on 21 November 2001.
Mr. Ambrose So	51	Director	8	A director of Shun Tak Holdings Limited and has extensive experience in the commercial and business fields. He resigned as an executive director of the Company on 21 November 2001.
Mr. Patrick Huen	60	Director	20	A director of Shun Tak Holdings Limited and has extensive experience in the banking field. He resigned as an executive director of the Company on 21 November 2001.
Mr. Andrew Tse	49	Director	8	A director of Shun Tak Holdings Limited and has extensive experience in the banking and corporate finance sectors. He resigned as an executive director of the Company on 21 November 2001.
Mr. Anthony Chan	54	Director	8	A director of Shun Tak Holdings Limited and has extensive experience in property investment and development. He resigned as an executive director of the Company on 21 November 2001.

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Name	Age	Position held	Number of years of service	Business experience
<i>Non-executive directors:</i>				
Madam Winnie Ho Yuen Ki	79	Director	20	Sister of Dr. Stanley Ho. She ceased to be a non-executive director of the Company on 9 April 2002.
Mr. Ho Cheuk Yuet	39	Director	0.5	Holder of BSc. (Economics) from the University of Hong Kong. Mr. Ho Cheuk Yuet has extensive experience in stockbroking and economic research with key management responsibilities for Hong Kong, China and Taiwan.
<i>Independent non-executive directors:</i>				
Sir Roger Lobo	79	Director	4	A director of Shun Tak Holdings Limited, a member of the Board of Trustees of Business and Professionals Federation of Hong Kong, a council member of Caritas Hong Kong and the vice patron of the Community Chest of Hong Kong and The Society for the Rehabilitation of Offenders.
Mr. Robert Kwan	65	Director	4	A director of Shun Tak Holdings Limited and chairman of Deloitte Touche Tohmatsu Certified Public Accountants.
Mr. Roque Choi	82	Director	31	A consultant of Banco Seng Heng, S.A.R.L., a director of Sociedade de Turismo e Desenvolvimento Insular S.A.R.L. and Empresa de Formento Industrial Comercial Concordia Limitada. He resigned as an independent non-executive director on 8 April 2002.

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Name	Age	Position held	Number of years of service	Business experience
<i>Independent non-executive directors (continued):</i>				
Mr. Jose Balcor Hun Prado	82	Director	32	A director of Agencia Commercial Ultra Marina, LDA., Companhia de Formento Predial Marina and Tai Ming LDA. He resigned as an independent non-executive director of the Company on 21 November 2001.

Purchase, redemption or sale 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.

Directors' interests in competing businesses

Dr. Stanley Ho, Madam Ho Yuen Ki and Madam Lucina Laam King Ying, have direct or indirect beneficial interests in Shun Tak Holdings Limited, its subsidiaries and associates (the "Shun Tak Group") as shareholders and/or directors. In addition, Dr. Stanley Ho and Madam Ho Yuen Ki have beneficial interests in Sociedade de Turismo e Diversões de Macau, its subsidiaries and associates (the "STDM Group") as directors and/or shareholders.

During the year and up to the date of this report, the businesses of property investment and hospitality (which includes restaurant operations) carried out by the Shun Tak Group and the STDM Group were considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Dr. Stanley Ho is actively involved in the management of the Shun Tak Group.

Dr. Stanley Ho is actively involved in the management of the STDM Group which operates principally outside Hong Kong.

As the board of directors of the Company is independent of the boards of the Shun Tak Group and the STDM Group, the Group is therefore capable of carrying on such businesses independently of, and at an arm's length from the businesses of these companies.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

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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 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 the two independent non-executive directors of the Company who are Sir Roger Lobo and Mr. Robert Kwan.

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

Stanley Ho

Chairman

Hong Kong
19 April, 2002