

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 activity of the Company is investment holding. The principal activities of the Group are the provision of total logistics and transportation ancillary services as well as investment, operation and management of related assets and projects. Apart from the above, the Group is also engaged in property investment. During the year, the Group disposed of and discontinued its passenger transportation and property development and sale businesses, further details of which are included in note 5 to the financial statements. Details of the principal activities of the Company's principal subsidiaries are set out on page 96 and details of the principal activities of the Group's principal associates and jointly-controlled entities are set out in notes 19 and 20 to the financial statements respectively.

### **SEGMENT INFORMATION**

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2001 is set out in note 6 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 35 to 94.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2001.

### **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 as appropriate, is set out on page 7. This summary does not form part of the audited financial statements.

### **FIXED ASSETS**

Details of the movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

### **INVESTMENT PROPERTIES**

Details of the movements in the investment properties of the Group during the year are set out in note 15 to the financial statements. Further particulars of the Group's investment properties are set out on page 95.

### **SHARE CAPITAL, SHARE OPTIONS AND WARRANTS**

Details of the movements in the share capital, share options and warrants of the Company 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 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

#### **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.

#### **RESERVES**

Details of the 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 had no reserves available for cash distribution and/or distribution in specie. However, under the Companies Act of Bermuda, the Company's share premium account may be distributed in the form of fully paid bonus shares and the Company's contributed surplus may be distributed under certain circumstances.

#### **MAJOR CUSTOMERS AND SUPPLIERS**

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

The purchases attributable to the largest five suppliers of the Group accounted for less than 30% of the Group's purchases for the year.

#### **DIRECTORS**

The directors of the Company during the year and up to the date of this report were:

##### **Executive directors**

Mr. Li Hei Hu  
Mr. Chen Chao  
Mr. Li Jing Qi  
Mr. Qiao Gang

##### **Non-executive directors**

Mr. Sun Yu Lin  
Mr. To Chi Keung  
Mr. Huang Chuan Qi (appointed on 27 February 2002)  
Mr. Sheng Bin (resigned on 14 September 2001)

##### **Independent non-executive directors**

Mr. Leung Ming Yuen, Simon  
Mr. Wang Xian Ping  
Mr. Ding Xun (appointed on 23 October 2001)

In accordance with the Company's bye-law 109(A) (supplemented by bye-law 189(ix)), Messrs. Chen Chao, Li Jing Qi and Leung Ming Yuen, Simon will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In accordance with the Company's bye-law 100 (supplemented by bye-law 189(v)), Messrs. Ding Xun and Huang Chuan Qi will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Under the terms of their appointments, the non-executive directors and independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

### **DIRECTORS' BIOGRAPHIES**

Biographical details of the directors of the Company are set out on pages 25 and 26 of the Annual Report.

### **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**

No director had a material 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.

### **DIRECTORS' INTERESTS IN SHARES, WARRANTS AND SHARE OPTIONS**

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

Share options granted by an associated corporation

<b>Name of director</b>	<b>Number of share options held</b>	<b>Nature of interest</b>
Mr. Li Hei Hu	60,000,000	Personal
Mr. Chen Chao	30,000,000	Personal
Mr. Li Jing Qi	13,500,000	Personal
	103,500,000	

The above share options were granted by Shenzhen High-Tech Holdings Limited ("Shenzhen High-Tech"), an associate of the Company, pursuant to the share option scheme approved by the shareholders of Shenzhen High-Tech on 17 November 2000. The subscription price per share payable upon the exercise of the share options is HK\$0.1945 and the share options are exercisable from 21 March 2001 to 16 November 2010 (both dates inclusive).

At 31 December 2001, according to the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), apart from the above and the share options granted by the Company as disclosed in the section "Share option scheme" below, none of the directors or their associates had any personal, family, corporate or other interests in the shares, warrants and share options of the Company or any of its associated corporations as defined in the SDI Ordinance.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed under the sections "Directors' interests in shares, warrants and share options" 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 spouse or children under 18 years of age 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. Eligible participants of the Scheme include any employee or director of the Company or its subsidiaries. The Scheme became effective on 16 April 1994 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 is an amount not exceed, upon their exercise, 10% of the shares of the Company in issue from time to time. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 209,600,000 (2000: 243,700,000), which represented approximately 1.9% (2000: 2.2%) of the Company’s shares in issue at that date.

No eligible participants of the Scheme shall be granted an aggregate number of share options which exceed 25% of the aggregate number of shares issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a cash consideration of HK\$1 in total payable by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one month and ends on a date which is not later than 5 years from one month after the share options are accepted by the grantee or the expiry date of the Scheme, if earlier.

Under the Scheme, the exercise price of the share options is determinable by the directors, and shall not be less than the greater of (i) a price being not less than 80% of the average closing price of the Company’s shares as quoted on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the five trading days immediately preceding the date of offer and (ii) the nominal value of the shares of the Company.

Effective from 1 September 2001, the exercise price of the share options must not be less than the higher of (i) the average closing price of the Company’s shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of the offer and (ii) the closing price of the Company’s shares as quoted on the Stock Exchange on the date of the offer in accordance with the new rule 17.03 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange.

The total number of shares available for issue under the Scheme as at 31 December 2001 is 651,271,162, representing approximately 5.8% of the issued share capital of the Company at that date.

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

Name and category of participant	Number of share options				At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares***	
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year					At date of grant of options	At date of exercise of options
								HK\$	HK\$	HK\$
<b>Directors</b>										
Mr. Li Hei Hu	35,000,000	—	—	—	35,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Chen Chao	30,000,000	—	—	—	30,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Li Jing Qi	30,000,000	—	—	—	30,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Qiao Gang	15,000,000	—	—	—	15,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Sun Yu Lin	15,000,000	—	—	—	15,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. To Chi Keung	15,000,000	—	—	—	15,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Sheng Bin <sup>#</sup>	30,000,000	—	—	(30,000,000)	—	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
	<b>170,000,000</b>	—	—	(30,000,000)	<b>140,000,000</b>					
<b>Other employees</b>										
In aggregate	6,000,000	—	(4,000,000)	—	2,000,000	4 February 1998	5 March 1998 to 4 March 2003	0.165	—	0.438
	67,700,000	—	(2,100,000)	—	65,600,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	0.460
	—	2,000,000	—	—	2,000,000	18 May 2001	19 June 2001 to 15 April 2004	0.308	0.400	N/A
	<b>73,700,000</b>	2,000,000	(6,100,000)	—	<b>69,600,000</b>					
	<b>243,700,000</b>	2,000,000	(6,100,000)	(30,000,000)	<b>209,600,000</b>					

<sup>#</sup> The share options held by Mr. Sheng Bin lapsed on 15 December 2001 following his resignation as a non-executive director of the Company on 14 September 2001.

\* The vesting period of the share options is one month.

\*\* 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's closing price as quoted on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average closing price of the shares immediately before the date on which the share options within the disclosure category were exercised.

Summary details of the Scheme are also set out in note 30 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 share 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. Share options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding share options.

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

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following interests of 10% or more of the issued 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 ordinary shares held	Percentage of the Company's issued share capital
Shenzhen Investment Holding Corporation ("SIHC") — <i>Note</i>	4,969,069,180	44.31
Ultrarich International Limited ("Ultrarich")	4,836,363,636	43.12

*Note:* Ultrarich is a wholly owned subsidiary of SIHC and accordingly, SIHC was deemed to be interested in the 4,836,363,636 shares of the Company owned by Ultrarich as disclosed above. The remaining shares of the Company of which SIHC were interested in, were owned by other wholly owned subsidiaries of SIHC.

Save as disclosed above, the Company is not aware of any parties holding 10% or more of the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

## RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of significant related party transactions of the Group, which also constitute connected transactions under the Listing Rules, are set out in note 36 to the financial statements.

## POST BALANCE SHEET EVENTS

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

## 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 non-executive directors and independent non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's bye-laws.

## AUDIT COMMITTEE

The Company established the audit committee (the "Committee") in 1995. In establishing the terms of reference for the Committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants. The Committee comprises three independent non-executive directors, namely Messrs. Leung Ming Yuen, Simon, Wang Xian Ping and Ding Xun. The primary duties of the Committee are to review and supervise the financial reporting and internal control procedures of the Group.

**AUDITORS**

Ernst & Young will retire as auditors of the Company at the forthcoming annual general meeting of the Company to be held on 24 May 2002. A resolution for the appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Li Hei Hu**

*Chairman*

Hong Kong  
26 April 2002