

# Directors' Report

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The directors present their annual report and the audited financial statements for the year ended 31st December, 2001.

## **PRINCIPAL ACTIVITIES**

The Company and its subsidiaries are principally engaged in property and other investments. Details of the principal activities of the Company's subsidiaries and Group's associates are set out in note 55 to the financial statements.

Details of segment information are set out in note 53 to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 19.

## **FIXED ASSETS**

The Group's leasehold properties were revalued as at 31st December, 2001. The net deficit on revaluation amounting to HK\$1.8 million, of which a surplus of HK\$0.2 million has been credited to the asset revaluation reserve and a deficit of HK\$2.0 million was charged to the income statement. The Group also revalued its investment properties as at 31st December, 2001. The deficit arising on the revaluation amounting to HK\$104 million, of which HK\$101 million has been charged to the investment property revaluation reserve and the remaining amount has been charged to the income statement.

Details of the above and other movements in fixed assets of the Group and of the Company during the year are set out in notes 17 and 18 to the financial statements.

## **PROPERTIES HELD FOR INVESTMENT PURPOSES**

Details of properties held by the Group for investment purposes at 31st December, 2001 are set out on pages 79 to 80.

## **SUBSIDIARIES AND ASSOCIATES**

Details of the Company's subsidiaries and Group's associates at 31st December, 2001 are set out in note 55 to the financial statements.

## **SHARE CAPITAL**

Details of the movements in share capital of the Company during the year are set out in note 34 to the financial statements.

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## SHARE OPTIONS AND WARRANTS

Details of movements during the year in the share options and warrants of the Company are set out in notes 35 and 36 to the financial statements respectively.

## RESERVES

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

## DIRECTORS

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

Zhu Dengshan	(appointed on 24th September, 2001)
Hui Xiao Bing	
Gao Jian Min	
Liu Tianni	(appointed on 26th April, 2001)
Gu Jianguo	
Chen Yongcun	
Cheung Chung Kiu	
Yuen Wing Shing	
Yang Yongsheng	(appointed on 17th August, 2001)
Kang Dian*	
Zhang Lu*	
Shi Chun Gui	(resigned on 24th September, 2001)
Yi Zhenqiu	(resigned on 8th August, 2001)
Xu Shi Quan	(resigned on 23rd May, 2001)

\* *Independent non-executive directors*

The term of office of each director, including the independent non-executive directors, is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

In accordance with the provisions of the Company's Articles of Association, Messrs. Hui Xiao Bing, Gao Jian Min and Yuen Wing Shing retire by rotation and Messrs. Zhu Dengshan and Yang Yongsheng retire at the forthcoming annual general meeting, Messrs. Hui Xiao Bing, Gao Jian Min, Yuen Wing Shing, Zhu Dengshan and Yang Yongsheng, being eligible, offer themselves for re-election.

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

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## DIRECTORS' INTERESTS IN SHARES

The interests of the directors and the Company's chief executives or any of its associated corporations were recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as at 31st December, 2001 were as follows:-

Name of director	Number of ordinary shares	Approximate percentage of shareholding
Cheung Chung Kiu	35,994,000**	2.7%

\*\* Oriental Pearl holdings Limited, a company controlled by Oriental Pearl Trust, of which Mr. Cheung Chung Kiu and his family are the beneficiaries, directly holds 35,994,000 shares in the Company.

Other than as disclosed in the sections below headed "Directors' Rights to Acquire Shares or Debentures" and "Substantial Shareholders", none of the directors held any interest in the share capital of the Company or its associated corporations and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the share option scheme (the "Scheme") of the Company adopted at the Company's annual general meeting on 26th June, 1995 are set out in note 35 to the financial statements.

Movements during the year of share options granted to the directors and other employees under the Scheme are set out below:

	Exercisable period	Subscription price per share HK\$ (Note)	Outstanding at 1.1.2001	Granted during the year	Exercised during the year	Lapsed upon resignation during the year	Outstanding at 31.12.2001
<b>Directors</b>							
Chen Yongcun	25.7.2001 - 24.7.2011	0.535	—	2,000,000	—	—	2,000,000
Gao Jian Min	9.1.1997 - 8.1.2007	0.967	15,000,000	—	—	—	15,000,000
Gu Jianguo	27.7.1999 - 26.7.2009	0.900	2,000,000	—	—	—	2,000,000
Liu Tianni	27.7.1999 - 26.7.2009	0.900	2,000,000	—	—	—	2,000,000
	25.7.2001 - 24.7.2011	0.535	—	3,000,000	—	—	3,000,000
Shi Chun Gui	27.7.1999 - 26.7.2009	0.900	4,000,000	—	—	(4,000,000)	—
Yi Zhengqiu	25.7.2001 - 24.7.2011	0.535	—	2,000,000	(2,000,000)	—	—
			23,000,000	7,000,000	(2,000,000)	(4,000,000)	24,000,000
<b>Other employees</b>							
	9.1.1997 - 8.1.2007	0.967	15,000,000	—	—	—	15,000,000
	27.7.1999 - 26.7.2007	0.900	16,000,000	—	—	—	16,000,000
	25.7.2001 - 24.7.2011	0.535	—	21,000,000	—	—	21,000,000
			54,000,000	28,000,000	(2,000,000)	(4,000,000)	76,000,000

Note: The Stock Exchange closing price of the Company's shares immediately before the grant of options and exercise of the options were HK\$0.66 and HK\$0.64 respectively.

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No consideration was paid for the share options granted. The financial impact of the 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 income statement or balance sheet for their costs. 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 in the share premium account.

The fair value of share options granted during the year with the exercise price per share of HK\$0.535 is estimated at HK\$0.459 per share using the Black-Scholes option-pricing model. The fair value is estimated basing on the risk-free rate of 5.24% per annum (with reference to the prevailing rate of 5-year Exchange Fund Notes as at the end of the month of granting the share options) and an expected volatility (deduced from one-year period historical volatility) of 68.4%, assuming no dividends and an expected option life of 5 years.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option-pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the characteristics of the option granted during the year are significantly different from those of publicly traded options and any changes in the subjective inputs may materially affect the fair value estimate, the Black-Scholes option-pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Other than as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in the section headed "Connected Transactions" below, no contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## CONNECTED TRANSACTIONS

- (1) A service agreement dated 26th June, 1997 was entered into between Mr. Gao Jian Min ("Mr. Gao") and the Company. Pursuant to the terms and conditions set out therein, the Company agreed to employ Mr. Gao and Mr. Gao agreed to serve the Company as a managing director by providing the Company with the services as described in the service agreement for a term of two years from 1st April, 1997, which term shall continue thereafter until determined by either party giving to the other not less than 6-month prior written notice.
- (2) On 23rd December, 2000, the Group entered into a conditional agreement ("Capital Agreement") with two existing shareholders of 北京東環置業有限公司 (Beijing East Gate Development Co., Ltd.) ("East Gate") which was formerly known as Beijing Huajian Real Estate Co., Limited, namely Silver Grant International Beijing Investment Limited ("SGIBI") and 中國北京市東城區華興房地產開發建設經營公司 ("Huaxing"), and 北京市第五建築工程公司 ("Wujian") whereby the Group agreed to inject US\$58,743,500, either in

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form of cash or in form of asset being the Group's investment property located in the residential floors of South Tower of East Gate Plaza, Beijing, the People's Republic of China, as registered capital of East Gate. Pursuant to the Capital Agreement, SGIBI also agreed to transfer its interest in US\$16,668,000 of the registered capital in East Gate to Wujian at a consideration of US\$16,668,000. The above transactions were approved at the extraordinary general meeting of the Company held on 6th February, 2001 and completed on the same date. Upon completion of the Capital Agreement, the Group injected its property at East Gate Plaza as consideration for its contribution to the registered capital of East Gate and the Group, SGIBI, Huaxing and Wujian collectively share approximately 58.5%, 16.6%, 8.3% and 16.6% of the profits and losses of East Gate respectively.

Mr. Hui Xiao Bing and Mr. Gao who are the directors of the Company, and Mr. Xu Shi Quan who was a former director of the Company are interested in 35%, 30% and 30% in the issued share capital of SGIBI respectively. SGIBI is entitled to share 80% of the profits and losses of East Gate prior to the signing of the Capital Agreement mentioned above.

- (3) Two conditional agreements dated 19th June, 2001 were entered into between the Group and SGIBI (the "SGIBI Agreement") and the Group and Wujian (the "Wujian Agreement") respectively under which the Group acquired 16.6% interest and 12.8% interest in East Gate from SGIBI and Wujian for cash consideration of US\$16,668,000 and US\$12,852,400 respectively (equivalent to approximately HK\$228,990,000 in total). Upon the completion of these two agreements and after the transfer of 0.5% interest in East Gate by Wujian to two PRC parties, the Group, Huaxing, Wujian and the two PRC parties collectively share approximately 87.9%, 8.3%, 3.3% and 0.5% of the profits and losses of East Gate respectively.

Prior to the signing of the SGIBI Agreement and Wujian Agreement, both SGIBI and Wujian are entitled to share 16.6% of the profits and losses of East Gate respectively.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") shows that the following shareholders had interests of 10% or more in the share capital of the Company:

Name of shareholder	Number of ordinary shares
Silver Grant International Holdings Limited ( <i>Note 1</i> )	198,820,022
Catic Limited ( <i>Note 2</i> )	158,468,000

*Notes:*

- Messrs. Hui Xiao Bing and Gao Jian Min, both of whom are directors of the Company, each has a 30% interest in Silver Grant International Holdings Limited as at 31st December, 2001.
- Catic Limited is an indirect wholly owned subsidiary of China Cinda Asset Management Corporation.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company had not been notified of any interests representing 10% or more of the issued share capital of the Company as at 31st December, 2001.

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## DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st December, 2001, the amount of the advances made by the Group to its affiliated companies and the amount of guarantees on banking facilities given by the Group were as follows:

<b>Affiliated company</b>	<b>Group's equity interest in the affiliated company</b>	<b>Advances in form of shareholders' loans</b>	<b>Guarantees on banking facilities given by the Group to banks</b>	<b>Total</b>
		HK\$'000	HK\$'000	HK\$'000
Nonferrous Metals International Limited ("NMIL")	50%	568	297,000	297,568
CII Limited ("CII")	50%	20,200	369,095	389,295
		<u>20,768</u>	<u>666,095</u>	<u>686,863</u>
Percentage of total amount of financial assistance over the net asset value of the Group as at 31st December, 2001				<u>35%</u>

The amounts of advances are unsecured, non-interest bearing and have no fixed repayment terms.

As at 31st December, 2001, the Group has executed a second mortgage over certain investment properties and leasehold properties pledged to a bank with carrying value at the balance sheet date of HK\$64,300,000 and HK\$13,000,000 respectively to secure the bank loan facilities of HK\$297,000,000 granted to NMIL, a wholly owned subsidiary of Nonferrous Metals International (BVI) Limited ("NMIL (BVI)") which is an associate of the Company.

As at 31st December, 2001, Silver Grant International Holdings Limited, a substantial shareholder of the Company, has pledged 60,000,000 shares of the Company held by it to a bank to secure the bank loan facilities granted to NMIL.

The pro-forma consolidated balance sheets of NMIL (BVI) and CII as at 31st December, 2001 are set out in note 23 to the financial statements.

Other than the above, the Company, or any of its subsidiaries, did not commit any advances, capital injection and guarantees given to any affiliated companies as at 31st December, 2001.

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## MAJOR CUSTOMERS AND SUPPLIERS

The Group's turnover comprises rental income from leasing of properties, dividend income from investments in securities, management fee income from property management and the gross proceeds received and receivable from trading of securities.

The aggregate amount of purchases and turnover attributable to the Group's five largest suppliers and customers were less than 30% of the Group's total purchase and turnover for the year.

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

During the year, the Group repurchased certain of its convertible bonds amounting to US\$19,790,000 at an aggregate consideration of US\$25,055,000. The relevant bonds were cancelled upon repurchase.

During the year, the Group repurchased 57,636,000 of its own shares at an aggregate consideration of HK\$56,485,000 through The Stock Exchange of Hong Kong Limited, details of which are set out in note 34 to the financial statements.

The directors consider that, as the Company's shares are trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

Other than disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## CORPORATE GOVERNANCE AND AUDIT COMMITTEE

The Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The Audit Committee of the Directors, consisting two independent non-executive directors, has reviewed the financial statements for the year ended 31st December, 2001 with management and the Company's auditors and recommended its adoption by the Directors.

## CLOSURE OF REGISTERS OF MEMBERS

The registers of members and warrant holders of the Company will be closed from Tuesday, 21st May, 2002 to Monday, 27th May 2002, both days inclusive, during which period no transfers of shares will be effected.

In order to qualify for proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Friday, 17th May, 2002.

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## AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

**Zhu Dengshan**

*Chairman*

24th April, 2002