



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 subsidiaries consisted of property investment, property management and investment holding. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

Details of the Group's segment information is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss 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 17 to 53.

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

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 56 of this annual report. This summary is not part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 14 to the financial statements. Particulars of the major properties of the Group as at the balance sheet date are set out on pages 54 to 55 of this annual report.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

At 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$345,847,000 (2000: HK\$380,327,000). In addition, under the laws of Bermuda, the Company's share premium account may be distributed in the form of fully paid bonus shares.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. Sales to the five largest customers accounted for 58% of the total sales for the year and sales to the largest customer included therein amounted to 28%.

As far as the directors are aware, neither the directors, their associates, nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, had any interest in the five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

| | |
|---------------------------|---|
| Wang Qinghai (Chairman) | (appointed as Chairman and Director on 19 April 2001) |
| Cao Zhong (Vice-Chairman) | (appointed as Vice-Chairman and Director on 23 November 2001) |
| Zhang Yanjun | |
| Zhang Yanlin | (resigned on 19 April 2001) |
| Su Genqiang | (resigned on 23 November 2001) |

Non-executive director:

Leung Shun Sang, Tony

Independent non-executive directors:

| | |
|-------------------------|---------------------------------|
| Choy Hok Man, Constance | |
| Tam King Ching, Kenny | |
| Kwok Lam Kwong, Larry | (resigned on 28 September 2001) |

Subsequent to the balance sheet date, on 6 February 2002, Zhang Yanjun resigned as managing director and director of the Company and Chen Zhouping was appointed as managing director and director of the Company. On 1 March 2002, Luo Zhenyu was appointed as director of the Company.

In accordance with clauses 99(A) and 102(B) of the Company's bye-laws, Cao Zhong, Chen Zhouping, Luo Zhenyu, Leung Shun Sang, Tony and Choy Hok Man, Constance will retire from office and, being eligible, will offer themselves for re-election at the forthcoming annual general 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 other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Company to which the Company or any of its holding companies, fellow subsidiaries, subsidiaries, jointly-controlled entity and associates was a party during the year.

DIRECTORS' INTERESTS IN SHARES

None of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme noted below, at no time during the year was the Company or any of its holding companies, fellow subsidiaries, subsidiaries, jointly-controlled entity and associates a party to any arrangement to enable the directors or 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

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 included full-time employees (including executive directors) of the Company or any subsidiary. The Scheme became effective on 8 September 1993 and 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 equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. As at 31 December 2001, the number of shares issuable under share options granted under the Scheme was 82,786,791, which represented 10% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme shall not exceed 25% of the number of shares of the Company subject to the Scheme at the time it is proposed to grant the relevant options to such eligible participant.

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The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$10 in total by the grantee. No option will be exercisable earlier than six months or later than 10 years after the commencement date on which the option is granted and accepted.

The exercise price of the share options is determinable by the directors at their discretion based on the higher of 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the offer date, and the nominal value of the Company's shares.

The adoption of a new share option scheme and termination of the existing share option scheme adopted by the Company on 8 September 1993 will be proposed as ordinary resolution in the forthcoming annual general meeting.

No share options were granted, exercised, cancelled or lapsed during the year. At 31 December 2001, the Company had no outstanding share options.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, 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 shares held | % |
|--|-----------------------|----|
| (i) Shougang Holding (Hong Kong) Limited | 521,982,508 | 63 |
| (ii) Shougang Concord International Enterprises Company Limited ("Shougang International") | 521,982,508 | 63 |
| (iii) Fast Track Investments Limited ("Fast Track") | 521,982,508 | 63 |
| (iv) Essential Assets Corp. | 417,952,049 | 50 |
| (v) Hatley Trading Limited | 104,030,459 | 13 |

Essential Assets Corp. and Hatley Trading Limited are wholly-owned subsidiaries of Fast Track. Fast Track is a wholly-owned subsidiary of Shougang International. Shougang International is controlled by Shougang Holding (Hong Kong) Limited, which is a wholly-owned subsidiary of Shougang Corporation, a state-owned enterprise in the PRC. Accordingly, the interests disclosed by parties (i), (ii) and (iii) above are in respect of the same shareholding of the aggregate of parties (iv) and (v).

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.

PRE-EMPTIVE RIGHTS

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

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 31 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the year, except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with Paragraph 14 of the Code throughout the accounting period covered by the annual report. The audit committee meets at least twice a year and has written terms of reference.

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

Cao Zhong

Vice-Chairman

Hong Kong

22 April 2002