

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries and associates are set out in notes 33 and 17 to the financial statements respectively.

As detailed in note 1 to the financial statements, the former associate, Magnificent Estates Limited ("Magnificent"), has become a subsidiary of the Company on 22nd October, 2001. Magnificent and its subsidiaries are principally engaged in hotel investment and operation, property investment, property development and trading, securities investment and trading and treasury investment.

The Group's turnover and contribution from ordinary activities for the year ended 31st December, 2001, analysed by activities and geographical location, are set out in notes 4 and 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 11.

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

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 23 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 46 of the Annual Report.

INVESTMENT PROPERTIES

Movements during the year in the investment properties of the Group are shown in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred property development expenditure amounted to approximately HK\$5,125,000, and acquired other property, plant and equipment at a cost of approximately HK\$253,000.

Details of these and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31st December, 2001 are set out on pages 47 and 48 of the Annual Report.

FINANCIAL ASSISTANCE TO A NON-WHOLLY OWNED SUBSIDIARY

During the year, the Company made advances to a non wholly-owned subsidiary, Magnificent. Details of such advances are set out in note 32(d)(ii) to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 22 to the financial statements. There were no movements in the share capital of the Company for the year.

CONVERTIBLE BONDS

Details of the convertible bonds issued by Magnificent are set out in note 24 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$18,000.

DIRECTORS

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

Executive directors

Mr. William Cheng Kai Man
Mr. Jim Wong Tin Yue
Mr. Albert Hui Wing Ho

Non-executive directors

Ms. Mabel Lui Fung Mei Yee*
Mr. Vincent Kwok Chi Sun*
Mr. David Cheng Kai Ho

* independent non-executive directors

Directors' Report (Continued)

In accordance with the provisions of the Company's Articles of Association, Mr. Jim Wong Tin Yue and Mr. David Cheng Kai Ho, shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director 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).

The term of office for each of the non-executive directors is the period up to his or her retirement by rotation in accordance with the Company's Articles of Association.

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Brief biographical details of directors are shown on page 5 of the Annual Report.

The executive directors are closely involved in and are directly responsible for all activities of the Group. The board of directors considers that only the executive directors are regarded as members of the Group's senior management.

EMOLUMENTS OF DIRECTORS AND HIGHEST PAID EMPLOYEES

Details of directors' emoluments and highest paid employees are set out in note 9 to the financial statements.

RETIREMENT AND PENSION PLAN

The Group had previously established a defined contribution pension scheme for its hotel operation employees. Contributions to the pension scheme were suspended in May 1999. The assets of the scheme were held separately from those of the Group in funds under the control of trustees. The employees were entitled to 100% of the employer's contributions and accrued interests thereon after 10 years of complete service, or at a reduced scale from 90% to 20% after completion of 9 to 2 years' service. The Group's contributions made for employees who have left the scheme prior to their interests being fully vested were forfeited and could be used by the Group to reduce the existing level of contributions. As at 31st December, 2001, the Group had available forfeited contributions of approximately HK\$250,000.

With effect from 1st December, 2000, the Group has joined the mandatory provident fund scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control

of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. No forfeited contribution under this scheme is available to reduce the Group's future contribution. The Group's contribution for employees under the MPF Scheme charged to the income statement for the year amounted to approximately HK\$211,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2001, the five largest customers of the Group accounted for less than 30% of the Group's turnover for the year and the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

DIRECTORS' INTERESTS IN SHARES, DEBT SECURITIES AND RIGHTS TO SUBSCRIBE FOR SHARES

At 31st December, 2001, the beneficial interests of the directors and their associates in the issued ordinary shares, debt securities and rights to subscribe for shares of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

	Corporate interests
Shares of HK\$0.50 each in the Company	
– William Cheng Kai Man	350,628,682 shares (Note 1)
Shares of HK\$0.01 each in Magnificent	
– William Cheng Kai Man	1,710,629,620 shares (Note 1)
Convertible bonds of Magnificent	
– William Cheng Kai Man	HK\$86,604,175 (Note 2)
Warrants of Magnificent	
– William Cheng Kai Man	629,361,166 units (Note 2)

Directors' Report (Continued)

Notes:

- At 31st December, 2001, Shun Ho Group Limited, a company controlled by Mr. William Cheng Kai Man, beneficially held 147,918,750 ordinary shares in Shun Ho Resources Holdings Limited ("Shun Ho Resources"), representing approximately 48.6% of its issued share capital. Mr. William Cheng Kai Man also had personal interests in 6,087,375 ordinary shares in Shun Ho Resources, representing approximately 2% of its issued capital. Shun Ho Resources and its subsidiaries in turn beneficially held 266,889,172 ordinary shares in the Company, representing approximately 49.7% of the issued share capital of the Company. As at that date, the Company and its subsidiary beneficially held 1,710,629,620 ordinary shares in Magnificent Estates Limited ("Magnificent"), representing approximately 51.01% of its issued share capital. Therefore, Mr. William Cheng Kai Man was deemed to have interests in the shares of the Company, its subsidiaries and associates.
- The Company together with a subsidiary beneficially held convertible bonds of Magnificent with an aggregate principal amount of HK\$86,604,175 and 629,361,166 units of warrants of Magnificent, representing approximately 97.4% of the total principal amount of convertible bonds and the total units of warrants outstanding at 31st December, 2001. Details of the convertible bonds and warrants are shown in notes 24 and 22 to the financial statements set out in this annual report respectively. During the year, the Company has exercised the conversion right of the convertible bonds to convert an aggregate carrying value of HK\$7,800,000 into 130,000,000 shares in Magnificent.

At 31st December, 2001, the subsidiaries of Magnificent beneficially held a total of 62,602,700 and 83,739,510 ordinary shares in Shun Ho Resources and the Company respectively, representing approximately 20.6% and 15.6% interests in their issued share capital respectively.

The Company and Magnificent respectively adopted Share Option Schemes For Employees on 30th June, 1990 and 27th September, 1990 for the primary purpose of providing incentives to directors and employees. These schemes lapsed on 30th June, 2000 and 27th September 2000 respectively.

In relation to the schemes, no share option was granted to any employees, suppliers or other participants during the year.

Particulars of outstanding share options at the beginning and end of the year were as follows:

Name	Number of shares issuable under options	Date of grant	Exercisable period		Subscription price per share HK\$
			From	To	
The Company					
William Cheng Kai Man	5,374,691	19/10/1993	20/10/1993	19/10/2003	1.11
Magnificent					
William Cheng Kai Man	43,799,524	29/6/1994	30/6/1994	29/6/2004	0.20

Share options may be exercised at any time after the date upon which the share option is deemed to be granted and accepted ("the Commencement Date") and ending with the date which is ten years after the Commencement Date.

No participant with share options granted in excess of the individual limit.

No share options was granted, exercised, cancelled or lapsed during the year.

Other than as disclosed above, none of the directors or their associates, had any interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or their associates or their spouses or children under the age of 18, had any right to subscribe for the equity or debt securities of the Company, or had exercised any such right during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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 OF SIGNIFICANCE

During the year, the Group had transactions with certain related parties, details of which are set out in note 32 to the financial statements.

In the opinion of the directors, those transactions were carried out in the ordinary course of the Group's business on normal commercial terms or better.

Amongst the directors who held office during the year, Mr. William Cheng Kai Man, Mr. Jim Wong Tin Yue and Mr. Albert Hui Wing Ho were interested, directly or indirectly, in the share capital of Shun Ho Resources, the Company and Magnificent.

Save as aforementioned, no contracts of significance to which the Company or any of 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.

Directors' Report (Continued)

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries were entered into during the year or subsisted at the end of the year.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2001, the interest of every person, other than a director or chief executive of the Company, in the equity securities of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance were as follows:

Name	Number of shares
Mercury Fast Limited	83,739,510
Omnico Company Inc. (Note 1)	350,628,682
Shun Ho Resources Holdings Limited (Note 2)	350,628,682
Shun Ho Group Limited (Note 2)	350,628,682
Madam Liza Lee Pui Ling (Note 3)	350,628,682

Notes:

1. Omnico Company Inc. beneficially held 266,889,172 shares in the Company and was taken to be interested in 83,739,510 shares in the Company held by its associate, Mercury Fast Limited, in accordance with Section 8(2) of the SDI Ordinance.
2. Shun Ho Resources Holdings Limited and Shun Ho Group Limited were taken to be interested in 350,628,682 shares in the Company by virtue of their direct and indirect interests in Omnico Company Inc. in accordance with Section 8(2) of the SDI Ordinance.
3. Madam Liza Lee Pui Ling, the spouse of Mr. William Cheng Kai Man who is a director of the Company, was taken to be interested in 350,628,682 shares in the Company in accordance with Section 8(1) of the SDI Ordinance.

Other than as disclosed above, the Company has not been notified of any other interests representing 10 per cent or more of the Company's issued share capital at 31st December, 2001.

CORPORATE GOVERNANCE

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.

AUDITORS

The financial statements for the preceding three years were audited by Deloitte Touche Tohmatsu.

A resolution to re-appoint Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

William CHENG Kai Man
Chairman of the Meeting

Hong Kong, 16th April, 2002