

# Report of the Directors

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2002.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 46 and 18 respectively to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 March 2002 are set out in the consolidated income statement on page 29.

The directors do not recommend the payment of any dividend.

## **RESERVES**

Movements in the reserves of the Group and the Company are set out in note 30 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 84.

## **INVESTMENT PROPERTIES**

At 31 March 2002, the investment properties of the Group were revalued by an independent valuer on an open market value basis at HK\$275,000,000. The net deficit arising on the revaluation, which has been directly charged to income statement, amounted to HK\$84,000,000. Details are set out in note 15 to the financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group acquired a piece of land in the People's Republic of China (the "PRC") at a cost of approximately HK\$57,300,000 and other assets at a cost of approximately HK\$9,300,000. These and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 16 to the financial statements.

## REPORT OF THE DIRECTORS

### MAJOR PROPERTIES

Details of the major properties of the Group at 31 March 2002 are set out on page 85 and 86 of the annual report.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company are set out in note 28 and note 29 respectively to the financial statements.

### PURCHASE, SALE OR REDEMPTION OF THE 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.

### DIRECTORS

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

#### Executive directors:

Zhang Yang ( <i>Chairman</i> )	
Liu Shunxin ( <i>Honorary Chairman</i> )	(appointed on 2 August 2001)
Hui Ho Ming, Herbert ( <i>Deputy Chairman</i> )	(appointed on 8 March 2002)
Lam Cheung Shing, Richard	(appointed on 2 August 2001)
Chan Wing Yuen, Hubert	(appointed on 8 March 2002)
Jack Jiyei Zhang	(appointed on 8 March 2002)
Yan Liyan	(appointed on 23 August 2001 and resigned on 8 March 2002)
He Xuechu	(retired on 8 August 2001)
Tsang Hin Fun, Anthony	(retired on 8 August 2001)

#### Independent non-executive directors:

Lee Peng Fei, Allen	(appointed on 1 March 2002)
Wu Wai Chung, Michael	(appointed on 11 March 2002)
Wong Hon Sum	
Ha Ping	

In accordance with the Company's Articles of Association, all remaining directors retire and, being eligible, offer themselves for re-election.

**DIRECTORS (continued)**

Mr. Zhang Yang had entered into a service contract with the Company for a fixed term of three years from 1 June 2000.

Mr. Hui Ho Ming, Herbert and Mr. Chan Wing Yuen, Hubert have entered into a service contract with the Company for a fixed term of three years from 8 March 2002.

Mr. Lam Cheung Shing, Richard has entered into a service contract with the Company for a fixed term of 18 months from 1 September 2001.

All independent non-executive directors have been appointed for a term of three years from 8 May 2000 except Mr. Lee Peng Fei, Allen and Mr. Wu Wai Chung, Michael who have been appointed for a term of one year from 1 March 2002 and 11 March 2002 respectively.

Other than as disclosed above, 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).

**DIRECTORS' INTERESTS IN SHARES**

At 31 March 2002, the interests of the directors and their associates in the issued share capital 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 were as follows:

<b>Directors</b>	<b>Number of ordinary shares held as</b>	
	<b>Corporate interest (note)</b>	<b>Personal interest</b>
Mr. Zhang Yang	1,600,125,000	–
Mr Jack Jiyei Zhang	–	5,000

*Note:*

The ordinary shares were held through Wealth Land Development Corp., a company beneficially owned by Mr. Zhang Yang.

Save as disclosed in Directors' Interests in Shares, Share Option Scheme and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, no director or chief executive held an interest in the share capital of the Company or its associated corporation as defined in the SDI Ordinance, and none of the directors or chief executives, nor 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.

## SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 25 July 2000 (the "Adoption Date") for the primary purpose of providing incentives to executive directors and eligible employees of the Company or its subsidiaries.

The Scheme will remain in force for a period of 10 years commencing on the Adoption Date. Pursuant to the Scheme, the Board of Directors of the Company may at their discretion grant options to directors or employees of the Company and its subsidiaries to subscribe for shares in the Company in accordance with the terms of the Scheme.

The subscription price for the shares under the Scheme will be at a price to be determined by the directors, but may not be less than the higher of 80% of the average of the closing price of the shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") for the five trading days immediately preceding the date of the grant of the option and the nominal value of the shares, and a nominal consideration of HK\$1 is payable on acceptance of the grant of an option. Options granted should be accepted within the specified time limit in accordance with the Share Option Offer Letter despatched to the eligible employees from the date of grant.

The maximum number of the shares in respect of which options may be granted under the Scheme may not, when aggregated with the shares subject to any other employee share option scheme, exceed in nominal amount 10% of the issued share capital of the Company from time to time, excluding for this purpose the shares issued upon the exercise of any option granted under the Scheme or any other employee share option scheme.

As at 31 March 2002, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 162,425,000, representing 3.7% of the shares of the Company in issue at that date. No option might be granted to any one employee which if exercised in full would result in the total number of shares of the company already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the maximum aggregate number of shares in the capital of the Company in respect of which options might at the time be granted under the Scheme.

The fair value of the options granted in the current year measured as at 11 June 2001 and 2 August 2001 being the dates of grant, totalled approximately HK\$8,932,066 and HK\$8,039,352 respectively. The following significant assumptions were used to derive the fair value using the Black-Scholes Option Pricing Model:

- (1) an expected volatility of 112% and 76% respectively based on historical volatility;
- (2) no annual dividend; and

**SHARE OPTION SCHEME (continued)**

- (3) the Hong Kong Exchange Fund Notes rate of 4.83% and 4.195% as at 11 June 2001 and 2 August 2001 respectively and based on the estimated expected life of 3 years and 2.5 years respectively.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data. The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Consideration received for the share options granted during the year was HK\$4.

The closing prices of the Company's shares immediately before 11 June 2001 and 2 August 2001, being the dates of grant of options during the year, were HK\$0.67 and HK\$0.72 respectively.

The weighted average closing prices of the Company's shares immediately before the dates on which the options were exercised ranged from HK\$0.625 to HK\$1.625.

The following table discloses movements in the Company's share options during the year:

Directors	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of share options					Balance at 31.3.2002
					Balance at 1.4.2001	Reclassification due to change of capacity	Granted during the year	Exercised during the year	Cancelled during the year	
Zhang Yang	29.3.2001	0.161	1.4.2001 to 31.3.2005	(1)	109,000,000	-	-	-	-	109,000,000
He Xuechu	29.3.2001	0.161	1.4.2001 to 31.3.2005	(2)	15,000,000	-	-	(2,250,000)	(12,750,000)	-
Tsang Hin Fun, Anthony	29.3.2001	0.161	1.4.2001 to 31.3.2005	(2)	15,000,000	-	-	(2,250,000)	(12,750,000)	-
Jack Jiyei Zhang	29.3.2001	0.161	1.4.2001 to 31.3.2005	(2)	-	10,000,000	-	(3,000,000)	-	7,000,000
Lam Cheung Shing, Richard	2.8.2001	0.54	1.3.2002 to 31.8.2004	(3)	-	-	20,000,000	-	-	20,000,000
					<u>139,000,000</u>	<u>10,000,000</u>	<u>20,000,000</u>	<u>(7,500,000)</u>	<u>(25,500,000)</u>	<u>136,000,000</u>

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME (continued)

Employees	Date of grant	Exercise price per share HK\$	Exercise period	Notes	Number of share options					Balance at 31.3.2002
					Balance at 1.4.2001	Reclassification due to change of capacity	Granted during the year	Exercised during the year	Cancelled during the year	
	29.3.2001	0.161	1.4.2001 to 31.3.2005	(2)	19,000,000	(10,000,000)	-	(2,700,000)	-	6,300,000
	29.3.2001	0.161	1.4.2001 to 31.3.2005	(4)	4,000,000	-	-	(600,000)	(1,275,000)	2,125,000
	11.6.2001	0.49	1.4.2002 to 31.3.2005	(5)	-	-	18,000,000	-	-	18,000,000
					<u>23,000,000</u>	<u>(10,000,000)</u>	<u>18,000,000</u>	<u>(3,300,000)</u>	<u>(1,275,000)</u>	<u>26,425,000</u>
<b>Grand total</b>					<u>162,000,000</u>	<u>-</u>	<u>38,000,000</u>	<u>(10,800,000)</u>	<u>(26,775,000)</u>	<u>162,425,000</u>

#### Notes:

- (1) No vesting period.
- (2) The options are vested in 4 tranches as to (i) 15% exercisable from the commencement date of exercise period; (ii) 15% exercisable from the expiry of 6 months from the commencement of exercise period; (iii) 35% exercisable from the expiry of 12 months from the commencement of exercise period; and (iv) 35% exercisable from the expiry of 24 months from the commencement of exercise period.
- (3) The options are vested in 5 tranches as to 20% each exercisable from the commencement date of exercise period, the expiry of 6 months, 12 months, 18 months and 24 months from the commencement of exercise period respectively.
- (4) The options are vested in 3 tranches as to (i) 15% exercisable from the expiry of 6 months from the commencement of exercise period; (ii) 40% exercisable from the expiry of 12 months from the commencement of exercise period; and (iii) 45% exercisable from the expiry of 24 months from the commencement of exercise period.
- (5) The options are vested in 2 tranches as to (i) 45% exercisable from the commencement of exercise period and (ii) 55% exercisable from the expiry of 12 months from the commencement of exercise period.

## CONVERTIBLE LOAN NOTE DUE 2004

A convertible loan note of HK\$200,000,000 was issued on 23 August 2001. Details of the note is set out in note 32 to the financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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.

## SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain director's interests in shares, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31 March 2002.

## CONNECTED TRANSACTION

As at 23 November 2001, the Company, has entered into the following transactions with a non-wholly owned subsidiary of the Company, Interchina Securities Limited ("ICS") and Mr. Wong Yu Chiu ("Mr. Wong"), a director and holding the 30% interest in equity of ICS.

- (a) The Company would increase the equity in ICS from 70% to 85% by subscribing 50,000,000 new shares in ICS at the subscription price of HK\$1.00 per share.
- (b) In consideration of the payment by Mr. Wong of HK\$10 to the Company, the Company had agreed to grant a put option to Mr. Wong to require the Company to purchase from Mr. Wong the 15% shares in ICS and 30% shares in Interchina Futures Limited ("Shares"). On the other hand, in consideration of the payment by the Company of HK\$10 to Mr. Wong, Mr. Wong had agreed to grant to the Company a call option to require Mr. Wong to sell to the Company the Shares. The option will expire on 2 January 2004.

During the year, the Group paid interest amounting to HK\$1,303,000 to a director of the Company's subsidiaries.

## REPORT OF THE DIRECTORS

### POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 44 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentage of turnover attributable to the Group's five largest customers was 37.91% of total turnover during the year. The percentage of turnover attributable to the Group's largest customer was 18.08% of total turnover during the year.

The principal business of the Group is to engage in property investment and development, hotel and clubhouse investment, securities and commodities investment, infrastructure and environmental protection investment. There are no major suppliers in view of its nature of business.

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in any of the Group's five largest customers.

### CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 March 2002 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

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

On behalf of the Board

**Zhang Yang**

*Chairman*

Hong Kong, 10 July 2002