

CODE OF BEST PRACTICE

None of the directors of the Company are aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2002, in compliance 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.

AUDIT COMMITTEE

The Audit Committee meets periodically with the Company's management and external auditors to consider the Company's financial reporting, the nature and scope of audit review, and the effectiveness of the internal control systems. The members of the Audit Committee comprise Robert Sze (Chairman), Edward Chen, Robert Fullerton, Ju Weimin and Jürgen Schulte, all of whom are non-executive Directors.

REMUNERATION COMMITTEE

The Remuneration Committee meets periodically to consider human resources issues, including terms and conditions of employment, remuneration, and fringe benefits of the Company. The members of the Remuneration Committee comprise Robert Fullerton (Chairman), Ju Weimin and Jürgen Schulte, all of whom are non-executive Directors.

DIRECTORS' INTERESTS

As at 30th June, 2002, as recorded in the register required to be maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the following directors have the following interests in the share capital of the Company:

(i) Ordinary shares

Mr. Peter Jackson and Mr. Vernon Smith had a personal interest in 163,500 and 5,000 ordinary shares respectively in the Company.

(ii) Options to subscribe for ordinary shares under the Share Option Schemes

Scheme adopted on 3rd June, 1996

In accordance with the Company's share option scheme (the "1996 Scheme") adopted pursuant to a resolution passed on 3rd June, 1996, the Board of Directors of the Company may at their discretion grant options to all permanent, full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company. The primary purpose of the 1996 Scheme was to provide incentives to eligible employees.

Scheme adopted on 3rd June, 1996 (continued)

The total number of shares in respect of which options may be granted under the 1996 Scheme (including options already exercised) was not permitted to exceed 10% of the issued share capital of the Company at any point in time. The maximum number of share options issued to any employee, based on the subscription price of the options, shall not exceed four times the annual basic salary (excluding bonuses and allowances) of that employee.

Options granted must be taken up within 28 days from the date of grant upon payment of HK\$1 per each grant of share options. An option may be exercisable up to 50% on or after the third anniversary of the date of grant, up to 75% on or after the fourth anniversary and fully on or after the fifth anniversary but before the tenth anniversary of the date of offer unless the Board of Directors specifies other periods. The exercise price was determined by the Board of Directors, and was based on the average closing price of the shares for the five trading days immediately preceding the date of grant.

The 1996 Scheme was terminated on 25th January, 2002 pursuant to a resolution passed on that date.

Scheme adopted on 25th January, 2002

Another new share option scheme (the “2002 Scheme”) was subsequently adopted pursuant to a resolution passed on 25th January, 2002 for the primary purpose of attracting and retaining the best personnel for the development of the Company’s businesses, and providing incentives to employees, directors, consultants, agents, representatives and advisors, and promoting the long-term financial success of the Company. The 2002 Scheme will expire on 24th January, 2012.

Under the 2002 Scheme, the Board of Directors of the Company may at their discretion grant options to the employees, including directors, of the Company or any company that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company, to subscribe for shares in the Company. Options granted to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent executive directors of the Company (excluding any independent non-executive director who is also the grantee).

At 30th June, 2002, the number of shares in respect of which options had been granted under the 2002 Scheme was 7,224,500, representing 1.85% of the shares of the Company in issue at that date.

Scheme adopted on 25th January, 2002 (continued)

The total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes must not, in aggregate, exceed 10% of the issued share capital of the Company at the adoption date of the 2002 Scheme, being 39,026,550 shares, without prior approval from the Company's shareholders.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to a substantial shareholder, or an independent non-executive director of the Company, or any of their respective associates under the 2002 Scheme, and any other schemes in any one year in excess of 0.1% of the Company's issued share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant upon payment of HK\$1 per each grant of share options. The exercise period of the share options granted under the 2002 Scheme shall be determined by the Board of Directors when such options are granted, provided that such period shall not end later than 10 years from the date of grant. The exercise price is determined by the Board of Directors, and will not be less than the higher of the closing price of the Company's shares on the date of grant, or the average closing price of the shares for the five trading days immediately preceding the date of grant, or the nominal value of a share of the Company.

Scheme adopted on 25th January, 2002 (continued)

The fair values of the options granted for the six months ended 30th June, 2002 measured as at the date of grant on 4th February, 2002 for option types C, D & E as defined below were HK\$8.16, HK\$6.00 and HK\$6.90 per option respectively. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Option type	C	D	E
Expected life of options	10 years	4 ⁵ / ₆ years	7 ² / ₃ years
Expected volatility based on historical volatility of share prices	51%	56%	51%
Hong Kong Exchange Fund Notes rate	5.99%	5.08%	5.47%
Expected annual dividend yield	1.62%	1.62%	1.62%

For the purpose 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.

No charge is recognised in the condensed income statement in respect of the value of options granted in the period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Scheme adopted on 25th January, 2002 (continued)

The following table discloses movements in the Company's share options for the six months ended 30th June, 2002:

	Share option scheme category	Option type	Outstanding at beginning of the period	Granted during the period	Cancelled during the period	Outstanding at end of the period
Directors						
Mr. Romain Bausch	2002	C	—	100,000	—	100,000
Mr. Mi Zengxin	2002	C	—	100,000	—	100,000
Mr. Edward Chen	2002	C	—	50,000	—	50,000
Mr. Ding Yu Cheng	2002	C	—	50,000	—	50,000
Mr. Robert Fullerton	2002	C	—	75,000	—	75,000
Mr. Ju Weimin	2002	C	—	50,000	—	50,000
Mr. Li Tong Zhou	2002	C	—	50,000	—	50,000
Mr. Jürgen Schulte	2002	C	—	50,000	—	50,000
Mr. Vernon Smith	2002	C	—	75,000	—	75,000
Mr. Robert Sze	2002	C	—	75,000	—	75,000
Mr. Yves Elsen (Note)	2002	C	—	50,000	(50,000)	—
Mr. Peter Jackson	1996	A	335,000	—	(335,000)	—
	1996	B	150,000	—	(150,000)	—
	2002	C	—	430,000	—	430,000
	2002	D	—	335,000	—	335,000
	2002	E	—	150,000	—	150,000
Mr. William Wade	1996	A	316,000	—	(316,000)	—
	1996	B	114,000	—	(114,000)	—
	2002	C	—	330,000	—	330,000
	2002	D	—	316,000	—	316,000
	2002	E	—	114,000	—	114,000
Total Directors			915,000	2,400,000	(965,000)	2,350,000
Employees						
	1996	A	1,067,500	—	(1,067,500)	—
	1996	B	1,574,000	—	(1,574,000)	—
	2002	C	—	2,233,000	—	2,233,000
	2002	D	—	1,067,500	—	1,067,500
	2002	E	—	1,574,000	—	1,574,000
Total Employees			2,641,500	4,874,500	(2,641,500)	4,874,500
Grand Total			3,556,500	7,274,500	(3,606,500)	7,224,500

Note: Mr. Yves Elsen resigned as a non-executive director of the Company on 14th March, 2002.

Scheme adopted on 25th January, 2002 (continued)

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price HK\$
A (Note a)	26th November, 1996	26th November, 1996 - 25th November, 1999	26th November, 1999 - 25th November, 2006	17.48
B (Note a)	20th September, 1999	20th September, 1999 - 30th September, 2002	1st October, 2002 - 30th September, 2009	17.48
C (Note b)	4th February, 2002	4th February, 2002 - 3rd February, 2004	4th February, 2004 - 3rd February, 2012	14.35
D (Note a)	4th February, 2002	—	4th February, 2002 - 25th November, 2006	17.48
E (Note a)	4th February, 2002	4th February, 2002 - 30th September, 2002	1st October, 2002 - 30th September, 2009	17.48

Notes:

a. Pursuant to a resolution passed in the special general meeting of the Company held on 25th January, 2002, the 1996 Scheme was terminated and all existing options under that scheme were cancelled. New options were issued on 4th February, 2002 under the 2002 Scheme with the same exercise price and exercise periods to replace the options granted under the 1996 Scheme.

The exercise periods are divided into 3 tranches, as detailed below:

Option type A

1. Up to 50% between 26th November, 1999 and 25th November, 2006
2. Up to 75% between 26th November, 2000 and 25th November, 2006
3. Up to 100% between 26th November, 2001 and 25th November, 2006

Option types B and E

1. Up to 50% between 1st October, 2002 and 30th October, 2009
2. Up to 75% between 1st October, 2003 and 30th October, 2009
3. Up to 100% between 1st October, 2004 and 30th October, 2009

b. Additional share options were issued on 4th February, 2002 under the 2002 Scheme.

The exercise period is divided into 3 tranches, as detailed below:

Option type C

1. Up to 25% between 4th February, 2004 and 3rd February, 2012
2. Up to 50% between 4th February, 2005 and 3rd February, 2012
3. Up to 100% between 4th February, 2006 and 3rd February, 2012

The closing price of the Company's shares immediately before the date of grant on 4th February, 2002 was HK\$14.85.

Other than as disclosed above, and as recorded in the register required to be maintained under Section 29 of the SDI Ordinance, none of the directors or their associates, had any interests in any shares of the Company or any of its associated corporations as defined in the SDI Ordinance and, save as disclosed above, none of the directors or their spouses or children under the age of 18, had any right to subscribe for shares of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDER

As at 30th June, 2002, the register required to be kept under Section 16(1) of the SDI Ordinance shows that the Company had been notified that the following company held an interest of 10% or more in the issued share capital of the Company:

Name	No. of shares	%
Bowenvale Limited	268,905,000	68.9

Notes:

- (1) The interest of Bowenvale Limited ("Bowenvale") in 268,905,000 shares in the Company is attributed to Able Star Associates Limited ("Able Star") and SES Finance S.A. ("SES Finance").
- (2) Able Star is a wholly-owned subsidiary of CITIC Asia Limited ("CITIC Asia"), which in turn is a wholly-owned subsidiary of CITIC International Holdings Limited ("CITIC International") which is a wholly-owned subsidiary of China International Trust and Investment Corporation ("CITIC"). Able Star, CITIC Asia, CITIC International and CITIC are each taken to be interested in such shares under Sections 8(2) and (3) of the SDI Ordinance.
- (3) SES Finance is a wholly-owned subsidiary of SES GLOBAL S.A. ("SES GLOBAL"). SES Finance and SES GLOBAL are each taken to be interested in such shares under Sections 8(2) and (3) of the SDI Ordinance.
- (4) CITIC controls 50.5% of the economic interest and 50% of voting rights of Bowenvale whilst SES GLOBAL controls 49.5% and 50%, respectively.

PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES

During the six months ended 30th June, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURE

Save as disclosed above, at no time during the period was the Company, or any of 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.

PRACTICE NOTE 19 OF THE LISTING RULES

Pursuant to paragraph 3.7.1 of Practice Note 19 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, the Company discloses that the covenants relating to the loan facility of HK\$1,950 million (US\$250 million) for a term of five years require (a) CITIC and SES GLOBAL between them to maintain beneficial ownership of more than 75% of the ordinary issued share capital of Bowenvale Limited, which is a substantial shareholder of the Company; and (b) Bowenvale Limited to maintain beneficial ownership of at least 51% of the issued share capital of the Company.

CLOSURE OF REGISTER OF MEMBERS

The Register of shareholders of the Company will be closed from 10th to 17th October, 2002 (both days inclusive). In order to qualify for interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 9th October, 2002. The interim dividend will be paid on or about 19th November, 2002.