

The directors 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 activities of the principal subsidiaries and associates are set out in notes 16 and 18, respectively, to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit 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 24 to 86.

The directors do not recommend the payment of any dividend for the year ended 31 December 2001.

MAJOR SUPPLIERS AND CUSTOMERS

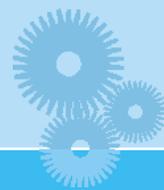
In the year under review, purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

SUMMARY OF FINANCIAL INFORMATION

The following table summarises the published results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate. This summary does not form part of the audited financial statements. Certain amounts in the five year summary have been adjusted for the effects of the retrospective changes in accounting policy affecting goodwill, as detailed in note 2 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION (continued)

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000 (Restated)	1997 HK\$'000
RESULTS					
Turnover:					
Continuing operations	369,508	444,551	466,997	419,724	557,021
Discontinued operations	—	—	—	1,089,570	1,004,988
	<u>369,508</u>	<u>444,551</u>	<u>466,997</u>	<u>1,509,294</u>	<u>1,562,009</u>
Operating profit/(loss):					
Continuing operations	9,714	18,153	(76,509)	(587,917)	103,831
Discontinued operations	—	—	—	70,254	131,256
	<u>9,714</u>	<u>18,153</u>	<u>(76,509)</u>	<u>(517,663)</u>	<u>235,087</u>
Share of loss of a jointly-controlled entity	(286)	—	—	—	—
Share of profits less losses of associates:					
Continuing operations	5,039	14,159	2,409	(35,812)	(21,507)
Discontinued operations	—	—	306	(55,357)	—
	<u>5,039</u>	<u>14,159</u>	<u>2,715</u>	<u>(91,169)</u>	<u>(21,507)</u>
Gain on disposal of discontinued operations	—	—	548,485	—	—
Profit/(Loss) before tax	14,467	32,312	474,691	(608,832)	213,580
Tax	(7,655)	(9,600)	(14,581)	(3,830)	(8,485)
Profit/(Loss) before minority interests	6,812	22,712	460,110	(612,662)	205,095
Minority interests	(49)	1,167	(233,498)	(5,094)	(60,093)
Net profit/(loss) from ordinary activities attributable to shareholders	<u>6,763</u>	<u>23,879</u>	<u>226,612</u>	<u>(617,756)</u>	<u>145,002</u>
ASSETS AND LIABILITIES					
Total assets	1,300,267	1,313,404	1,557,286	1,855,290	3,367,298
Total liabilities	(218,186)	(238,964)	(355,285)	(837,403)	(1,283,969)
Minority interests	(46,284)	(46,320)	(47,593)	(204,068)	(774,578)
Net assets	<u>1,035,797</u>	<u>1,028,120</u>	<u>1,154,408</u>	<u>813,819</u>	<u>1,308,751</u>

**FIXED ASSETS**

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 14 to the financial statements. Further details of the Group's investment properties are set out on pages 87 and 88.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 15 to the financial statements. Further details of the Group's properties under development are set out on page 88.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in issued shares and share options of the Company during the year are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had no reserves available for distribution. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders in certain circumstances, prescribed by Section 54 thereof. In addition, the Company's share premium account and capital redemption reserve may be distributed in the form of fully paid bonus shares.



CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$2,907,000.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

DIRECTORS

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

Tsui Tsin Tong

Sir David Akers-Jones*

Tsui Ho Chuen, Philip

Tsui Yam Tong, Terry

Lam Ting Ball, Paul

Lau Wong Fat*

Wu Tat Po

Ng Suen Tak, Paul* (resigned on 24 July 2001)

Li Hui Yan* (appointed on 24 July 2001)

* independent non-executive director

In accordance with the Company's bye-laws, Sir David Akers-Jones and Mr. Li Hui Yan will retire from office at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND DEBT SECURITIES

At 31 December 2001, the interests of the directors of the Company in the share capital of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name	Number of shares held		Total
	Personal interests	Other interests	
Tsui Tsin Tong	6,000,000	—	6,000,000
Sir David Akers-Jones	2,405,000	—	2,405,000
Tsui Ho Chuen, Philip	—	537,473,906*	537,473,906
Tsui Yam Tong, Terry	1,124,000	537,473,906*	538,597,906
Lau Wong Fat	500,000	—	500,000

* Such interests arose as a result of Messrs. Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry each being a discretionary object of a discretionary trust, the corporate trustee of which, Rapid Growth Ltd., beneficially held 537,473,906 shares in the Company under the SDI Ordinance at 31 December 2001.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND DEBT SECURITIES (continued)

At 31 December 2001, the interests of the directors of the Company in options to subscribe for shares in the Company under the share option schemes of the Company were as follows:

Name	Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of shares under options			
				Balance at 1 January 2001	Granted during the year	Lapsed during the year	Balance at 31 December 2001
Tsui Tsin Tong	23 May 1995	23 May 1995 to 22 May 2001	0.324	12,000,000	—	(12,000,000)	—
	27 September 2001	27 September 2001 to 26 September 2006	0.1576	—	38,000,000	—	38,000,000
Sir David Akers-Jones	23 August 2000	23 August 2000 to 22 August 2003	0.224	1,000,000	—	—	1,000,000
Tsui Ho Chuen, Philip	23 August 2000	23 August 2000 to 22 August 2003	0.224	6,000,000	—	—	6,000,000
	26 April 2001	26 April 2001 to 25 April 2006	0.2152	—	4,000,000	—	4,000,000
	27 September 2001	27 September 2001 to 26 September 2006	0.1576	—	33,500,000	—	33,500,000
Tsui Yam Tong, Terry	23 August 2000	23 August 2000 to 22 August 2003	0.224	6,000,000	—	—	6,000,000
	26 April 2001	26 April 2001 to 25 April 2006	0.2152	—	4,000,000	—	4,000,000
	27 September 2001	27 September 2001 to 26 September 2006	0.1576	—	33,500,000	—	33,500,000
Lam Ting Ball, Paul	27 September 2001	27 September 2001 to 26 September 2006	0.1576	—	10,000,000	—	10,000,000
Lau Wong Fat	23 May 1995	23 May 1995 to 22 May 2001	0.324	1,000,000	—	(1,000,000)	—
Wu Tat Po	23 August 2000	23 August 2000 to 22 August 2003	0.224	1,000,000	—	—	1,000,000
	27 September 2001	27 September 2001 to 26 September 2006	0.1576	—	21,000,000	—	21,000,000



DIRECTORS' INTERESTS IN SHARE CAPITAL AND DEBT SECURITIES (continued)

On 27 September 2001, an option to subscribe for 750,000 shares was granted to the spouse of Mr. Tsui Yam Tong, Terry at an exercise price of HK\$0.1576. Such option is exercisable and valid between 27 September 2001 to 26 September 2006, which remained unexercised at the end of the year.

The closing prices of the Company's shares traded on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 25 April 2001 and 26 September 2001 (being the days immediately before the respective dates upon which options were granted during the year as referred to above) were HK\$0.26 and HK\$0.19 respectively.

Save as disclosed above, none of the directors or their respective associates had any interest (including personal, family or corporate interests) in the share capital or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance at 31 December 2001, and no right had been granted to, or exercised by, any director of the Company, or his spouse, or children under 18 years of age to subscribe for shares in or debt securities of the Company during the year under review.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in share capital and debt securities" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than under the share option schemes of the Company pursuant to which options were granted to certain directors.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a beneficial interest, either direct or indirect, in any significant contract to which the Company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

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 of compensation other than statutory compensation.



BRIEF BIOGRAPHIES IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position held	Number of years of service	Business experience
Tsui Tsin Tong JP	62	Chairman	17	More than 31 years' experience in the investment and property fields
Sir David Akers-Jones KBE, CMG, JP	75	Deputy Chairman	11	Former Chief Secretary specialising in land planning and housing development
Tsui Ho Chuen, Philip	38	Executive Deputy Chairman	17	Solicitor
Tsui Yam Tong, Terry	56	Managing Director	15	More than 29 years' experience in administration and management
Lam Ting Ball, Paul	60	Managing Director	29	More than 29 years' experience in the paint industry
Lau Wong Fat OBE, JP	65	Director	11	More than 27 years' experience in land and property business
Wu Tat Po	55	Finance Director	2	More than 21 years' experience in fund management
Li Hui Yan	60	Director	1	More than 30 years' experience in financial control and general management



BRIEF BIOGRAPHIES IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Senior management

The businesses of the Group are under the direct responsibility of four directors, namely, Dr. Tsui Tsin Tong, Messrs. Tsui Ho Chuen, Philip, Tsui Yam Tong, Terry and Lam Ting Ball, Paul.

Note: Dr. Tsui Tsin Tong and Mr. Tsui Yam Tong, Terry are brothers and Mr. Tsui Ho Chuen, Philip is the son of Dr. Tsui Tsin Tong.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, according to the register kept by the Company under Section 16 of the SDI Ordinance, the following shareholders of the Company were interested in 10% or more of the issued share capital of the Company:

Name	Number of shares held
Rapid Growth Ltd. (Note 1)	537,473,906
Jade Fortune Venture Limited (Note 2)	200,000,000

Notes:

1. The interest of Rapid Growth Ltd. is detailed in the section headed "Directors' interests in share capital and debt securities" as set out above.
2. Jade Fortune Venture Limited was taken to have an interest in 200,000,000 shares in the Company by virtue of a security interest over these shares charged by Rapid Growth Ltd.. Morganite Holding Limited and Mr. Tse Cho Tseung were deemed to be interested in these shares under the SDI Ordinance by virtue of their shareholding interests in Jade Fortune Venture Limited.

Save as disclosed above, the directors of the Company are not aware of any other person who, at 31 December 2001, was directly or indirectly beneficially interested in 10% or more of the issued share capital of the Company.

CONNECTED TRANSACTIONS

- (i) The Company advanced loans to Shinfull Development Limited, a non-wholly owned subsidiary for the development of the properties at Nos. 18-20A and 24 Tin Hau Temple Road, Hong Kong. The outstanding balance at the balance sheet date amounted to HK\$1,843,000 (2000: HK\$3,375,000). The loans are unsecured, interest-free and have no fixed terms of repayment.
- (ii) Certain wholly-owned subsidiaries of the Company have advanced loans amounting to HK\$26,533,000 (2000: HK\$26,533,000) to Dalian Qinggang Hotel, a non-wholly owned subsidiary, for the development of properties at Dalian Qing Gang Centre in The People's Republic of China. The loans are unsecured, interest-free and have no fixed terms of repayment.

**SHARE OPTION SCHEME**

On 13 June 2001, a share option scheme (the “Existing Share Option Scheme”) was approved by the shareholders under which the directors of the Company may, at their discretion, offer any executive director or employee of the Company or of any of its subsidiaries, options to subscribe for shares in the Company subject to the terms and conditions stipulated in the scheme.

A summary of the Existing Share Option Scheme and particulars of outstanding options are set out below pursuant to the requirements as contained in Chapter 17 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange:

(a) Summary of the Existing Share Option Scheme**(i) Purpose**

The purpose of the scheme is to enable the Company to provide incentive to the executive directors and employees of the Company and of any of its subsidiaries by offering them an opportunity to participate in the growth of the Group.

(ii) Participants

The directors may at their discretion grant options to executive directors and employees of the Company or of any of its subsidiaries to subscribe for shares in the Company.

(iii) Maximum number of shares available for issue

At 20 April 2002, the number of shares issuable under the options granted pursuant to the Existing Share Option Scheme is 151,208,000, which represents about 9.9% of the existing issue share capital of the Company.

(iv) Maximum entitlement of each participant

The maximum number of shares in respect of which options may be granted to any eligible person shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Existing Share Option Scheme.

**SHARE OPTION SCHEME** (continued)**(a) Summary of the Existing Share Option Scheme** (continued)

(v) Time of exercise of options

An option may be exercised in accordance with the terms of the Existing Share Option Scheme at any time during the period to be specified and notified by the directors to the grantee, but in any event not beyond the 10-year period after the date of grant.

(vi) Basis of determining exercise price

The exercise price of a share in respect of any particular option granted shall equal to the higher of the nominal value of the share and 80% of the average of the closing price per share on the Stock Exchange on the 5 trading days immediately preceding the date of grant of the option.

(vii) Remaining life of the scheme

The Existing Share Option Scheme remains in force until 12 June 2011.

In order to comply with the new requirements of Chapter 17 of the Listing Rules effective 1 September 2001, a resolution to adopt a new share option scheme in replacement of the Existing Share Option Scheme will be proposed at a special general meeting to be held on 28 June 2002 immediately after the conclusion of the forthcoming annual general meeting, and details of the proposed new share option scheme are set out in the circular sent together with this annual report.

(b) Particulars of outstanding options

Pursuant to the Existing Share Option Scheme, certain share options were granted to employees (other than the directors of the Company) of the Group working under continuous contracts, details of which at 31 December 2001 were set out below:

Date of grant	Vesting/ Exercise period	Exercise price per share	Number of shares under options		
			Balance at 1 January 2001	Granted during the year	Balance at 31 December 2001
27 September 2001	27 September 2001 to 26 September 2006	HK\$0.1576	—	16,284,000	16,284,000

SHARE OPTION SCHEME (continued)

(b) Particulars of outstanding options (continued)

Prior to the adoption of the Existing Share Option Scheme, the Company had a share option scheme (the “Old Share Option Scheme”) which came into operation on 2 May 1991 and expired on 2 May 2001. The number of options granted under such share option scheme to employees (other than the directors of the Company) working under continuous contracts but remained unexercised at 31 December 2001 were as follows:

Date of grant	Vesting/ Exercise period	Exercise price per share	Number of shares under options	
			Balance at 1 January 2001	Balance at 31 December 2001
23 August 2000	23 August 2000 to 22 August 2003	HK\$0.224	4,000,000	4,000,000

The closing price of the Company’s shares traded on the Stock Exchange on 26 September 2001 (being the day immediately before the date on which options were granted during the year as referred to above) was HK\$0.19.

Particulars of the share options granted to each of the directors of the Company are set out in the section headed “Directors’ interests in share capital and debt securities” above.

During the year, a total of 152,284,000 shares (granted on 27 September 2001) and a total of 8,000,000 shares (granted on 26 April 2001) issuable under options had been granted under the Existing Share Option Scheme and the Old Share Option Scheme respectively. Their respective theoretical values are HK\$24,709,000 and HK\$1,785,000. The following significant variables and assumptions were used in the calculation of the theoretical values of the share options granted using the Black-Scholes option pricing model:

1. an expected volatility of 120% based on historical volatility;
2. risk-free rate of 5.44% and 4.36%, being the 5-year Hong Kong Exchange Funds Notes traded on the 26 April 2001 and 27 September 2001 respectively; and
3. future dividends will have no material variance from the historical dividends.



SHARE OPTION SCHEME (continued)

(b) Particulars of outstanding options (continued)

Reliability of the theoretical values of the share options is highly dependent upon the fundamental assumptions of the Black-Scholes option pricing model, certain subjective assumptions including the volatility of the share price of the Company and uncertainty of the future. Any adjustment to these assumptions and limitations might have material effect on the theoretical values. In the opinion of directors, the model does not necessarily represent a reliable single measure of the fair value of the share options.

FINANCIAL ASSISTANCE AND GUARANTEES PROVIDED TO AFFILIATED COMPANIES

The aggregate amount of the financial assistance and guarantees given for banking facilities granted to the affiliated companies of the Company by the Company and the Group at 31 December 2001 amounted to approximately HK\$264,623,000, which represented approximately 25.6% of the Group's consolidated net asset value as at 31 December 2001. The proforma combined balance sheet of and the Group's attributable interest in these affiliated companies as at 31 December 2001 are disclosed pursuant to paragraph 3.10 of Practice Note 19 to the Listing Rules as follows:

FINANCIAL ASSISTANCE AND GUARANTEES PROVIDED TO AFFILIATED COMPANIES (continued)

	Combined	The Group's attributable interest
	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Fixed assets	610,446	110,726
Intangible asset	23,214	2,321
Interests in associates	56,883	28,441
Long term investments	219	76
	690,762	141,564
CURRENT ASSETS		
Short term investments	5,198	2,308
Inventories	116,010	33,411
Properties held for sale	39,584	19,792
Trade receivables	107,496	20,598
Prepayments, deposits and other receivables	87,544	26,512
Due from holding companies	97	48
Cash and bank balances	80,918	10,860
	436,847	113,529
CURRENT LIABILITIES		
Trade payables	127,200	19,287
Other payables and accruals	46,239	15,409
Bills payable and import loans	10,572	3,700
Bank and other borrowings	241,239	28,842
Current portion of finance lease payables	911	245
Due to holding companies	302,851	142,127
	729,012	209,610
NET CURRENT LIABILITIES	(292,165)	(96,081)
TOTAL ASSETS LESS CURRENT LIABILITIES	398,597	45,483
NON-CURRENT LIABILITIES		
Bank and other borrowings	361,002	47,315
Long term portion of finance lease payables	152	41
Due to holding companies	38,095	15,781
	399,249	63,137
	(652)	(17,654)



COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

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 of

CNT GROUP LIMITED

Tsui Tsin Tong

Chairman

Hong Kong

20 April 2002