

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2001.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 44, 18 and 19 to the financial statements, respectively.

### RESULTS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 28 of the annual report.

The directors do not recommend the payment of any dividend.

### SHARE CAPITAL

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company, details of which are set out in note 26 to the financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

Details of these and other movements in the share capital of the Company are set out in note 26 to the financial statements.

### INVESTMENT PROPERTIES AND HOTEL PROPERTIES

At 31st December, 2001, the investment properties and hotel properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis at HK\$775,200,000 and HK\$608,400,000 respectively. The surplus of HK\$2,375,000 arising on the revaluation of investment properties has been credited to the consolidated income statement. The surplus arising on revaluation of hotel properties amounted to HK\$20,423,000, of which HK\$9,660,000 (net of minority interests of HK\$3,220,000) and HK\$7,543,000 have been credited to the hotel properties revaluation reserve and the consolidated income statement respectively.

## INVESTMENT PROPERTIES AND HOTEL PROPERTIES *(Continued)*

Particulars of investment properties and hotel properties of the Group at 31st December, 2001 are set out in notes 12 and 13 to the financial statements, respectively.

## PROPERTY, PLANT AND EQUIPMENT

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

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

### Executive directors:

WANG Jun (*Chairman*)

HE Ping (*Vice-Chairman*)

LI Shi Liang (*Managing Director*)

XIE Da Tong

LI Tong Zhou

JI Jun (resigned on 31st May, 2001)

### Independent non-executive directors:

YAO Kang, J.P.

IP Chun Chung, Robert (appointed on 10th January, 2001)

LAM Tak Shing (appointed on 10th January, 2001)

LIU Lit Chi (resigned on 10th April, 2001)

In accordance with Articles 99 & 116 of the Company's Articles of Association, Messrs. Li Shi Liang, Xie Da Tong and Yao Kang, J.P. will retire and, being eligible, offer themselves for re-election.

The term of office of each of the non-executive directors lasts until his retirement by rotation as required by the Company's Articles of Association.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### SHARE OPTIONS

The Company's share option scheme (the "CMIC Scheme") was adopted on 16th June, 1993 for the primary purpose of providing incentives to directors and eligible employees and will expire on 15th June, 2003. Under the CMIC Scheme, the Company may grant options to the directors and the employees of the Company or its subsidiaries to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options proposed to be granted should be accepted within 30 days from the date of offer. The granted options are exercisable during the period commencing on the date one year after the date of grant and expiring on the date four years after the date of grant or such other date as may be determined by the board of directors, which shall not be more than ten years after the date of grant. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time excluding the aggregate number of shares already allotted and issued pursuant to the CMIC Scheme.

The exercise price is determined by the directors of the Company, and shall not be less than the higher of the nominal value of the Company's shares on the date of grant, and 80% of the average closing price of the shares for the five business days immediately preceding the date of offer.

At 31st December, 2001, the outstanding number of shares in respect of which options had been granted under the CMIC Scheme was 74,405,000, representing 9.2% of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the CMIC Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time.

**SHARE OPTIONS** *(Continued)*

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

			Number of shares subject to CMIC Scheme		
	Date of grant	Exercise price per share HK\$	Outstanding at 1.1.2001	Lapsed during the year	Outstanding at 31.12.2001
<b>Category 1: Directors</b>					
Wang Jun	3.9.1997	5.175	6,000,000	—	6,000,000
	5.6.1998	1.37	4,500,000	—	4,500,000
	30.11.2000	0.74	5,000,000	—	5,000,000
He Ping	3.9.1997	5.175	6,000,000	—	6,000,000
	5.6.1998	1.37	4,500,000	—	4,500,000
	30.11.2000	0.74	5,000,000	—	5,000,000
Li Shi Liang	30.11.2000	0.74	5,000,000	—	5,000,000
Xie Da Tong	3.9.1997	5.175	4,800,000	—	4,800,000
	5.6.1998	1.37	3,000,000	—	3,000,000
	30.11.2000	0.74	4,000,000	—	4,000,000
Ji Jun <i>(Note)</i>	3.9.1997	5.175	3,600,000	—	3,600,000
	5.6.1998	1.37	2,000,000	—	2,000,000
	30.11.2000	0.74	3,000,000	—	3,000,000
			<u>56,400,000</u>	<u>—</u>	<u>56,400,000</u>
<i>Note: Mr. Ji Jun resigned as a director of the Company with effect from 31st May, 2001 but he remains as a director of certain subsidiaries of the Company.</i>					
<b>Category 2: Employees</b>					
	3.9.1997	5.175	11,760,000	(960,000)	10,800,000
	5.6.1998	1.37	3,000,000	—	3,000,000
	30.11.2000	0.74	4,935,000	(730,000)	4,205,000
			<u>19,695,000</u>	<u>(1,690,000)</u>	<u>18,005,000</u>
<b>Total</b>			<u><u>76,095,000</u></u>	<u><u>(1,690,000)</u></u>	<u><u>74,405,000</u></u>

## DIRECTORS' REPORT

### SHARE OPTIONS (Continued)

Save as disclosed above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or 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 debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

### DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2001, Poly Investments Holdings Limited ("Poly"), an associate of CMIC, had granted options in Poly (the "Poly Options"), to certain directors to subscribe for shares in Poly (the "Poly Shares") according to the previous share option scheme of Poly adopted on 5th December, 1990 and expired on 4th December, 2000 as follows:

	Date of grant	Exercise price per Poly Share HK\$	Number of Poly Shares subject to Poly Options
Wang Jun	3.9.1997	1.27	10,000,000
	5.6.1998	0.50	10,000,000
	30.11.2000	0.50	7,000,000
He Ping	3.9.1997	1.27	10,000,000
	5.6.1998	0.50	10,000,000
	30.11.2000	0.50	7,000,000
Li Shi Liang	30.11.2000	0.50	8,400,000
Xie Da Tong	3.9.1997	1.27	8,000,000
	5.6.1998	0.50	8,000,000
	30.11.2000	0.50	5,500,000

## DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

Options granted are exercisable during the period commencing on the date of grant and expiring on the date ten years after the date of grant.

Save as disclosed above and in the section headed "Share Options", as at 31st December, 2001, none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") which is required to be recorded in the register maintained under Section 29 of the SDI Ordinance or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## SUBSTANTIAL SHAREHOLDERS

At 31st December, 2001, according to the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following persons were interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Number of ordinary shares beneficially held
Congratulations Company Ltd.	169,745,000
Source Holdings Limited <i>(Note 1)</i>	328,485,560
Ting Shing Holdings Limited <i>(Note 2)</i>	498,230,560
Ringo Trading Limited <i>(Note 3)</i>	537,678,036
China Poly Group Corporation <i>(Note 4)</i>	537,678,036

### SUBSTANTIAL SHAREHOLDERS *(Continued)*

#### Notes:

1. Source Holdings Limited is deemed by the SDI Ordinance to be interested in 328,485,560 shares of the Company as a result of its direct holding of the shares and indirect holdings of the shares through its wholly-owned subsidiaries.
2. Ting Shing Holdings Limited is deemed by the SDI Ordinance to be interested in 498,230,560 shares as a result of its indirect holding of the shares through its subsidiaries, representing Source Holdings Limited and Congratulations Company Ltd.
3. Ringo Trading Limited is deemed by the SDI Ordinance to be interested in 537,678,036 shares as a result of its direct holding of the shares and indirect holding of the shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
4. China Poly Group Corporation owns 100% of Ringo Trading Limited and is accordingly deemed by the SDI Ordinance to be interested in the shares directly and indirectly owned by Ringo Trading Limited.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company at 31st December, 2001.

### CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 43 to the financial statements. In the opinion of the directors who do not have any interest in the above transactions, the above transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.

### DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

### CORPORATE GOVERNANCE

In the opinion of the directors, 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 Listing Rules.

### AUDITORS

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

On behalf of the Board

**LI Shi Liang**

*Managing Director*

Hong Kong, 18th April, 2002