

Report of the Directors

Reports of the Directors

The directors present their annual report and 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. Details of the principal activities of the subsidiaries and associates are set out in note 19 and note 20 to the financial statements respectively. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTED INFORMATION

An analysis of Group's turnover and contribution to results by principal activity for the year ended 31 December 2001 is set out in note 5 and note 4 to the financial statements respectively.

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 29 to 91.

An interim dividend of HK3.0 cents (2000: HK3.0 cents) per share was paid on 31 October 2001. The directors recommend the payment of a final dividend of HK5.0 cents (2000: HK5.0 cents) per share in respect of the year to shareholders on the register of members on 30 May 2002. The recommendation has been incorporated in the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate is set out on page 92. This summary is not part of the financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group are set out in note 14 and note 18 to the financial statements.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 19 to the financial statements.

PRINCIPAL ASSOCIATES

Particulars of the Company's and the Group's interests in its principal associates are set out in note 20 to the financial statements.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Company and of the Group are set out in note 27 to the financial statements.

CONVERTIBLE BONDS

Details of the Group's convertible bonds are set out in note 28 to the financial statements.

INTEREST CAPITALISED

Interest of approximately HK\$10,261,000 was capitalised during the year in respect of the Group's property development projects.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons thereof, are set out in note 31 to the financial statements.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company, nor any of its subsidiaries purchased any of the Company's listed securities during the year.

During the year, the Company's wholly owned subsidiary repurchased convertible bonds with a nominal value of approximately HK\$204 million for cancellation.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$616,232,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, 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.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interests of the Group's five largest customers or five largest suppliers.

DIRECTORS

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

Executive directors:

Mr. Song Zhiwang	
Mr. Liu Zixian	(appointed on 3 April 2001)
Mr. Sun Juyi	
Mr. Zhu Qiyi	
Mr. Zhang Luzheng	
Mr. Yang Yefang	
Mr. Xu Ruxin	(appointed on 22 April 2002)
Mr. Zhu Huoyang	(appointed on 22 April 2002)
Mr. Wen Gujian, Ex-Managing director	(Resigned on 3 April 2001)

Non-executive directors:

Mr. Wong Po Yan
Mr. Lee Yip Wah, Peter

In accordance with Articles 92 and 101 of the Company's new Articles of Association, Messrs. SUN Juyi, Yang Yefang, LEE Yip Wah, Peter, XU Ruxin and ZHU Huoyang will retire by rotation, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The terms of office of the non-executive directors are subject to retirement as required by the Company's Articles of Association.

Save as disclosed above 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.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details the directors of the Company and the senior management of the Group are set out on pages 17 to 20 of the annual report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors emoluments and of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements respectively.

DIRECTORS' SERVICE CONTRACTS

Mr. Sun Juyi, Mr. Zhang Luzheng, Mr. Zhu Qiyi and Mr. Yang Yefang have entered into a service agreement with the Company for an initial period of three years commencing 1 February 1998 which will continue thereafter unless and until terminated by either party by six months' prior written notice.

DIRECTORS' INTERESTS IN CONTRACTS

No directors had a material interests in any contracts of significance to the business of the Group to which the Company, its subsidiaries, its holding company, or its fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance ('SDI Ordinance').

The existing share option scheme was adopted by the Company on 12 February 1997. To be in line with the recent changes of the Listing Rules in relation to share option schemes and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and for such other purposes as the Board may approve from time to time, the Board proposes that the existing share option scheme be terminated and the new share option scheme for the participants be approved and adopted at the Extraordinary General Meeting to be held on 5 June 2002. Information regarding the new share option scheme will be incorporated, inter alia, in the circular which will be dispatched to the shareholders together with this annual report.

DIRECTORS' INTERESTS IN SHARES *(continued)*

On 8 January 2001, options totaled 30,000,000 shares had been granted under the share option scheme. As at 31 December 2001, the director's interest in options to subscribe for the Company's shares as recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

Name or category of participant	At 1 January 2001	Granted during the year	Exercised during the year	Number of Share options		At 31 December 2001	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	Price of Company's shares	
				Lapsed during the year	Cancelled during the year					At grant date of options HK\$	At exercise date of options HK\$
Directors											
Mr. Song Zhiwang	2,000,000	-	-	-	-	2,000,000	15-6-2000	15-12-00 to 15-12-00	1.36	1.69	-
Other employees											
In aggregate	900,000	-	(900,000)	-	-	-	15-5-2000	30-11-00 to 30-11-03	1.29	1.82	2.075
	4,900,000	-	(4,900,000)	-	-	-	15-6-2000	15-5-00 to 15-12-03	1.36	1.69	2.075
	15,060,000	-	-	-	-	15,060,000	29-9-2000	29-3-01 to 29-3-04	1.33	1.74	-
	-	30,000,000	(5,000,000)	-	-	25,000,000	8-1-2001	8-7-01 to 8-7-04	1.19	1.60	2.55
	20,860,000	30,000,000	(10,800,000)	-	-	40,060,000					
	22,860,000	30,000,000	(10,800,000)	-	-	42,060,000					

During the period under review, 16,800,000 of these options have been exercised.

Further details of the Company's share option scheme are set out in note 31 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees because a number of factors crucial for the valuation cannot be determined, such factors include the exercise period and the conditions that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful but would be misleading to the shareholders.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Saved as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or its associated corporations and none of the directors, or their spouse or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	%
Shum Yip Holdings Company Limited	615,478,000	53.98

Saved 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.

CONNECTED TRANSACTIONS

Details of the disclosable connected transactions for the year are set out in note 37 to the financial statements. In the opinion of the independent non-executive directors, these transactions were entered into by the Group:

- (i) in the ordinary and usual course of its business;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and
- (iv) within the relevant cap amounts as agreed by the Stock Exchange.

Save as disclosed above, there were no other transactions, which need to be disclosed as, connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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.

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 of the Listing Rules of the Hong Kong Stock Exchange, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Articles of Association.

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee currently comprises of Mr. Wong Po Yan and Mr. Lee Yip Wah, Peter, independent non-executive directors. The Audit Committee has reviewed the Group's results for the year in a meeting held on 22 April 2002.

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

Song Zhiwang

Chairman

Hong Kong, 22 April, 2002