

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 43 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

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 and 2000 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 of the Group at that date are set out in the financial statements on pages 28 to 97.

No interim dividend was paid during the year and the directors do not recommend the payment of a final dividend for the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and 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 pages 3 to 5. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

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SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 33 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 34 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had no reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance. The Company's share premium account, in the amount of HK\$2,420,668,000, may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the turnover derived from the Group's five largest customers accounted for 5.8% of the Group's turnover for the year and turnover derived from the largest customer included therein amounted to 2.7%. Purchases from the Group's five largest suppliers accounted for 20.1% of the total purchases for the year and purchases from the largest supplier included therein amounted to 6.1%.

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 interest in the Group's five largest customers and suppliers.

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DIRECTORS

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

Executive directors:

Wong Sai Chung	(Chairman and Joint Managing Director)
Dr. George Wang Sai Cheong	
Wong Sai Wa	(Joint Managing Director)
Kwan Kai Cheong	(Joint Managing Director)
Zhang Liping	(Joint Managing Director) (Appointed on 28 June 2001)
Wong Siu Man	
Tam Wing Tak	

Independent non-executive directors:

Michael Dobbs-Higginson
Warren Talbot Beckwith

Subsequent to the balance sheet date, on 2 January 2002, Mr. Warren Talbot Beckwith resigned as an independent non-executive director of the Company and Professor Chiang Chiu Ping, Raymond was appointed as an independent non-executive director of the Company.

In accordance with article 73 of the Company's articles of association, Mr. Zhang Liping and Professor Chiang Chiu Ping, Raymond will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with articles 77 to 79 of the Company's articles of association, Mr. Tam Wing Tak will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 13 to 16 of the Annual Report.

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.

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DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 30, 31 and 36 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year. The independent non-executive directors have also confirmed to the board that the transactions, as disclosed in notes 30, 31 and 36 to the financial statements, were either conducted in accordance with the terms of the agreements governing such transactions, or otherwise in the usual and ordinary course of business of each of the companies, and were fair and reasonable so far as the shareholders of the Company are concerned.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

Ordinary shares of the Company

Name of director	Nature of interest	Number of shares	Share options granted
Wong Sai Chung	Corporate (<i>note a</i>)	1,851,734,762	–
Wong Sai Wa	Personal	672,970	8,050,000
Kwan Kai Cheong	Personal and family	4,956,239	8,016,000
Zhang Liping	Personal	–	1,500,000
Wong Siu Man	Corporate (<i>note b</i>)	3,081,076	1,610,000
Tam Wing Tak	Personal and Corporate (<i>note c</i>)	672,970	1,540,000

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

Notes:

- (a) Max Asialines Limited and Sanote Investments Limited, which hold 809,600,592 and 394,060,845 shares, respectively, in the Company, are wholly-owned subsidiaries of U.S. Concord (Holding) Limited which is controlled by Mr. Wong Sai Chung. Skyport Investments Limited, which holds 400,000,000 shares in the Company, is a wholly-owned subsidiary of Cebu Blue Limited. Cebu Blue Limited, which holds 57,017,311 shares in the Company, is a wholly-owned subsidiary of Concord Oil Group Limited which is, in turn, controlled by Mr. Wong Sai Chung. In addition, Beaujet Development Limited and Gain Time Holdings Limited, which hold 180,011,279 and 11,044,735 shares, respectively, in the Company, are both controlled by Mr. Wong Sai Chung.
- (b) Win System Holdings Limited, which holds 3,081,076 shares in the Company, is controlled by Miss Wong Siu Man.

DIRECTORS' INTERESTS IN SHARES (continued)

(c) Smark Eagle Holdings Ltd., which holds 452,298 shares in the Company, is controlled by Mr. Tam Wing Tak.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employees, including executive directors of the Company or any of its subsidiaries other than joint venture companies registered in the People's Republic of China. The Scheme became effective on 28 February 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the number of issued shares of the Company from time to time excluding the aggregate number of shares which were issued pursuant to the Scheme. In addition, the maximum number of shares in respect of which options may be granted under the Scheme to any grantee shall not exceed 25% of the number of shares issued and issuable under the Scheme at the time of grant.

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SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and in any event such period of time shall not exceed a period of 3 years commencing on the expiry of 1 year after the date of the acceptance of the offer and expiring on the last day of such period, or 28 February 2007, whichever is the earlier.

The exercise price of the share options is determinable by the directors, but shall be the higher of (i) a price being not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the share.

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1	Granted	Exercised	Lapsed	At 31				At grant	At exercise
	January	during	during	during	December				date of	date of
	2001	the year	the year	the year	2001				options	options
Directors										
Wong Sai Wa	96,000	–	–	(96,000)	–	16-06-1997	16-06-1998 to 15-06-2001	3.32	3.66	–
	1,000,000	–	–	–	1,000,000	19-10-1998	19-10-1999 to 18-10-2002	1.09	1.20	–
	50,000	–	–	–	50,000	05-06-1999	05-06-2000 to 04-06-2003	0.74	0.82	–
	5,000,000	–	–	–	5,000,000	27-08-2000	27-08-2001 to 26-08-2004	0.86	0.86	–
	–	2,000,000	–	–	2,000,000	22-08-2001	22-08-2002 to 21-08-2005	0.51	0.51	–
	6,146,000	2,000,000	–	(96,000)	8,050,000					

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SHARE OPTION SCHEME (continued)

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1	Granted	Exercised	Lapsed	At 31				At grant	At exercise
	January	during	during	during	December				date of	date of
	2001	the year	the year	the year	2001				options	options
									HK\$	HK\$
Directors										
Kwan Kai Cheong	10,000	–	–	(10,000)	–	07-07-1997	07-07-1998 to 06-07-2001	3.32	3.66	–
	1,000,000	–	–	–	1,000,000	19-10-1998	19-10-1999 to 18-10-2002	1.09	1.20	–
	16,000	–	–	–	16,000	01-06-1999	01-06-2000 to 31-05-2003	0.74	0.82	–
	5,000,000	–	–	–	5,000,000	24-08-2000	24-08-2001 to 23-08-2004	0.86	0.86	–
	–	2,000,000	–	–	2,000,000	22-08-2001	22-08-2002 to 21-08-2005	0.51	0.51	–
	<u>6,026,000</u>	<u>2,000,000</u>	<u>–</u>	<u>(10,000)</u>	<u>8,016,000</u>					
Wong Siu Man	96,000	–	–	(96,000)	–	11-06-1997	11-06-1998 to 10-06-2001	3.32	3.66	–
	50,000	–	–	–	50,000	07-06-1999	07-06-2000 to 06-06-2003	0.74	0.82	–
	1,000,000	–	–	–	1,000,000	27-08-2000	27-08-2001 to 26-08-2004	0.86	0.86	–
	–	560,000	–	–	560,000	22-08-2001	22-08-2002 to 21-08-2005	0.51	0.51	–
	<u>1,146,000</u>	<u>560,000</u>	<u>–</u>	<u>(96,000)</u>	<u>1,610,000</u>					

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SHARE OPTION SCHEME (continued)

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2001				At grant date of options HK\$	At exercise date of options HK\$
Directors										
Tam Wing Tak	56,000	–	–	(56,000)	–	13-06-1997	13-06-1998 to 12-06-2001	3.32	3.66	–
	1,000,000	–	–	–	1,000,000	27-08-2000	27-08-2001 to 26-08-2004	0.86	0.86	–
	–	540,000	–	–	540,000	22-08-2001	22-08-2002 to 21-08-2005	0.51	0.51	–
	<u>1,056,000</u>	<u>540,000</u>	<u>–</u>	<u>(56,000)</u>	<u>1,540,000</u>					
Zhang Liping	–	1,500,000	–	–	1,500,000	28-06-2001	28-06-2002 to 27-06-2005	0.68	0.68	–
	<u>–</u>	<u>1,500,000</u>	<u>–</u>	<u>–</u>	<u>1,500,000</u>					
Other employees										
In aggregate	438,000	–	–	(438,000)	–	16-06-1997	16-06-1998 to 15-06-2001	3.32	3.66	–
	322,000	–	–	–	322,000	05-06-1999	05-06-2000 to 04-06-2003	0.74	0.82	–
	1,850,000	–	–	–	1,850,000	27-08-2000	27-08-2001 to 26-08-2004	0.86	0.86	–
	–	978,000	–	–	978,000	22-08-2001	22-08-2002 to 21-08-2005	0.51	0.51	–
	<u>2,610,000</u>	<u>978,000</u>	<u>–</u>	<u>(438,000)</u>	<u>3,150,000</u>					
	16,984,000	7,578,000	–	(696,000)	23,866,000					

SHARE OPTION SCHEME (continued)

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

Summary details of the Company's share option scheme are also set out in note 33 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 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 the value of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, no person, other than Mr. Wong Sai Chung, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

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CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) 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 independent 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 and re-election at the annual general meeting of the Company in accordance with the Company’s articles of association.

AUDIT COMMITTEE

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 comprises the two independent non-executive directors of the Company.

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

Wong Sai Chung

Chairman

Hong Kong, 13 May 2002