

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers and the largest customer were 60% and 28% of the total sales for the year respectively. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the total purchases for the year.

None of the directors, their associates or shareholders which to the knowledge of the directors, owns more than 5% of the Company's share capital had any beneficial interest in the five largest customers of the Group.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 21 of the annual report.

The directors do not recommend the payment of a final dividend for the year ended 31st December, 2001.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 73 of the annual report.

SHARE CAPITAL

During the year, China Strategic Holdings Limited ("CSH"), the ultimate holding company placed 226,000,000 shares of the Company of US\$0.02 each at HK\$0.40 per share to independent professional investors and the Company issued and allotted the same number of shares of the Company at HK\$0.40 per share to CSH according to a placing and subscription agreement dated 4th July, 2001. The net proceeds from the placing and subscription of approximately HK\$88 million were used for the development costs of projects in the People's Republic of China (the "PRC"), repayment of borrowings and general working capital.

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

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

INVESTMENT PROPERTIES

During the year, the Group disposed of certain of its investment properties with an aggregate carrying amount of approximately HK\$14.5 million to an independent third party for a consideration of approximately HK\$14.5 million.

The Group also revalued all of its investment properties at the balance sheet date and a deficit of approximately HK\$20 million was charged to the consolidated income statement.

Details of these and other movements in the investment properties of the Group during the year are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group recognised impairment losses of approximately HK\$63.3 million and HK\$360.3 million, respectively on its properties under construction and construction in progress, which have been charged to the consolidated income statement.

The Group also revalued its hotel property at the balance sheet date and a deficit of HK\$25 million has been charged to the consolidated income statement.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

PROPERTIES UNDER/HELD FOR DEVELOPMENT

During the year, the Group recognised an impairment loss of HK\$28.8 million on its properties under/held for development, which has been charged to the consolidated income statement.

Details of these and other movements in the properties under/held for development of the Group during the year are set out in note 16 to the financial statements.

PRINCIPAL SUBSIDIARIES AND ASSOCIATE

During the year, the Group acquired 100% interest in Silvercomb Property Ltd. for cash consideration of HK\$106 million. The Group also disposed of its 30% interest in Dionysus Investments Limited for cash consideration of HK\$30 million.

Details of the principal subsidiaries and associate of the Company and the Group at 31st December, 2001 are set out in notes 42 and 18 respectively to the financial statements.

DIRECTORS

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

Executive directors:

Chan Kwok Hung	
Chan Fut Yan	
Cheung Hon Kit	(appointed on 1st September, 2001)
Chau Mei Wah, Rosanna	
Mok Yat Fan, Edmond	
Cheng Yin Ching, Anna	
Lam Shan	(resigned on 17th September, 2001)
Lee Kim Ying	(resigned on 15th January, 2002)

Independent non-executive directors:

Wong Pui Fai	
Chan Shu Kin	(appointed on 26th June, 2001)
Kwok Chi Keung	(resigned on 26th June, 2001)

In accordance with Clause 99 of the Company's Bye-Laws, Ms. Cheng Yin Ching, Anna and Mr. Wong Pui Fai retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

In accordance with Clause 102(B) of the Company's Bye-Laws, Mr. Cheung Hon Kit and Mr. Chan Shu Kin, the newly appointed directors, also retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2001, none of the directors or the chief executive of the Company, nor their associates, had any interests in any securities of the Company or any of its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register required to be kept under section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (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").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(i) The Company

The Company's share option scheme (the "Scheme") was adopted on 27th June, 2000 for a period of ten years from 3rd July, 2000 to 2nd July, 2010, the purpose of which is to give an incentive and appreciation to employees for their contribution to the Group. Under the Scheme, the board of directors of the Company (the "Board") may grant options to executive directors and full time employees of the Company or any of its subsidiaries to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. The exercise price is determined by the Board and shall be the higher of (i) such subscription price as is permissible under the Listing Rules from time to time; and (ii) the nominal value of a share of the Company. An option may be exercised at any time during such period as the Board may determine, save that such period shall not expire later than ten years from the date upon which the option is granted.

Pursuant to the Scheme, the maximum number of shares of the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company shall represent 10% of the issued share capital of the Company from time to time, excluding the shares to be issued on the exercise of options granted pursuant to the Scheme or any such other scheme, or such higher number of shares as may be permissible under the Listing Rules from time to time.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him exceeding 25% the aggregate number of shares for the time being issued and issuable under the Scheme, or such higher number of shares as may be permissible under the Listing Rules.

During the year, no options under the Scheme were granted or exercised by any directors of the Company and no options were cancelled or lapsed. In addition, no options were outstanding at the beginning and at the end of the financial year ended 31st December, 2001.

(ii) CSH

In accordance with the terms of the CSH's Executive Share Option Scheme (the "CSH Scheme") adopted on 20th July, 1992, and effective for a period of ten years after the date of adoption of such scheme, CSH granted to directors and employees of CSH and its subsidiaries share options to subscribe for its ordinary shares for a consideration of HK\$1 for the primary purpose of providing incentives to directors and eligible employees. The subscription price, subject to adjustment, is based on 80% of the average of the closing prices of the shares of CSH on the five trading days immediately before the options were offered. Options granted are exercisable not later than ten years after the date the options are accepted.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

(ii) CSH (Continued)

At 31st December, 2001, the number of shares of CSH in respect of which options had been granted under the CSH Scheme was 376,750, representing 0.082% of the shares of CSH in issue at that date. The total number of shares of CSH in respect of which options may be granted under the CSH Scheme is not permitted to exceed 10% of the shares of CSH in issue, excluding any shares issued pursuant to the CSH Scheme at any point in time, without prior approval from the shareholders of CSH. The number of shares of CSH in respect of which options may be granted to any individual is not permitted to exceed 25% of the aggregate number of shares of CSH in issue and issuable under the CSH Scheme at any point in time, without prior approval from shareholders of CSH.

No options under the CSH Scheme were granted to the executive directors or full time employees of the Company or any of its subsidiaries during the year.

Save as disclosed above, at no time during the year was the Company, 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 debentures of, the Company or any other body corporate and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18 had any right to subscribe for equity or debt securities of the Company or had exercised any such rights during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Interests of directors of the Company in competing businesses as at 31st December, 2001 required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of director	Name of company	Nature of competing business	Nature of interest
Chan Fut Yan	Paul Y. – ITC Construction Holdings Limited ("Paul Y. – ITC") and its subsidiaries	Property business in Hong Kong and the PRC	As the managing director of Paul Y.– ITC
Cheung Hon Kit	Paul Y. – ITC and its subsidiaries	Property business in Hong Kong and the PRC	As an executive director of Paul Y. – ITC
Chau Mei Wah, Rosanna	Star East Holdings Limited ("Star East") and its subsidiaries	Property business in Hong Kong and the PRC	As an executive director of Star East
	Paul Y. – ITC and its subsidiaries	Property business in Hong Kong and the PRC	As an executive director of Paul Y. – ITC

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (Continued)

Name of director	Name of company	Nature of competing business	Nature of interest
Mok Yat Fan, Edmond	Certain subsidiaries of Paul Y. – ITC	Property business in Hong Kong and the PRC	As a director of those subsidiaries of Paul Y. – ITC

The changes of interests of the directors of the Company in competing businesses previously disclosed in the 2000 Annual Report of the Company are set out below:

1. Mr. Chan Kwok Hung resigned as a director of those subsidiaries of Star East which are engaged in property business in Hong Kong and the PRC.
2. Mr. Cheung Hon Kit was appointed as an executive director and the Executive Vice Chairman of the Company with effect from 1st September, 2001. He was appointed as an executive director of Paul Y. – ITC with effect from 4th December, 2001.
3. Ms. Chau Mei Wah, Rosanna resigned as the managing director of Star East on 13th December, 2001 but she remains as an executive director of Star East.
4. New World CyberBase Limited disposed of those subsidiaries which are engaged in property business in Hong Kong and the PRC and in which Ms. Chau Mei Wah, Rosanna and Mr. Mok Yat Fan, Edmond are directors. Accordingly, Ms. Chau Mei Wah, Rosanna and Mr. Mok Yat Fan, Edmond ceased to have such interests disclosed last year.
5. Mr. Lam Shan resigned as a director of certain subsidiaries of Star East which are engaged in property business in Hong Kong and the PRC. In addition, Mr. Lam Shan resigned as an executive director and the Managing Director – China Division of the Company with effect from 17th September, 2001.

Having considered the nature, size and scope of the above businesses, the directors of the Company believe that there is unlikely to be any significant competition with the businesses of the Group.

The directors of the Company are of the opinion that the Group is capable of carrying on its businesses independently of, and at arm's length from, the competing businesses mentioned above.

Save as disclosed above, none of the directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company:

	Number of shares			Percentage of issued share capital	Note
	Direct interest	Deemed interest	Total interest		
CSH	–	893,216,620	893,216,620	65.6%	(a)
China WTO.com Limited ("CWTO")	140,006,620	592,420,000	732,426,620	53.8%	(b)
Expert Commerce Limited	250,000,000	–	250,000,000	18.4%	(b)
Golden Flower Limited	342,420,000	–	342,420,000	25.1%	(b)
Wealthy Gain Limited	160,790,000	–	160,790,000	11.8%	(c)
Ruby Enterprises Limited ("REL")	–	160,790,000	160,790,000	11.8%	(c)

Notes:

- (a) CSH holds the entire beneficial interest in the above list of companies as mentioned in notes (b) and (c), CSH is accordingly deemed by the SDI Ordinance to be interested in an aggregate of 893,216,620 shares of the Company.
- (b) Expert Commerce Limited, which directly owns 250,000,000 shares of the Company, and Golden Flower Limited, which directly owns 342,420,000 shares of the Company, are wholly-owned subsidiaries of CWTO. CWTO is a wholly-owned subsidiary of CSH and directly owns 140,006,620 shares of the Company. Accordingly, CWTO is deemed by the SDI Ordinance to be interested in an aggregate of 732,426,620 shares of the Company.
- (c) Wealthy Gain Limited, which directly owns 160,790,000 shares of the Company, is a wholly-owned subsidiary of REL which in turn is a wholly-owned subsidiary of CSH. Accordingly, REL is deemed by the SDI Ordinance to be interested in an aggregate of 160,790,000 shares of the Company.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, 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, subsisted at the end of the year or at any time during the year.

CONTRACT OF SIGNIFICANCE

On 19th January, 2001, the Company as borrower and Happy Access Limited, a wholly-owned subsidiary of CSH, as lender entered into a loan agreement in respect of a loan of HK\$120,000,000. The loan agreement subsisted at the end of the financial year and is a contract of significance between the Company and a subsidiary of the controlling shareholder of the Company. Details of the balances are set out in note 29 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations of approximately HK\$10,000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

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 except in relation to Guideline 1 as certain directors frequently travelled abroad for overseas business trips and were unable to attend the board meetings when convened and held and Guideline 7 as non-executive directors are not appointed for a specific term but are subject to rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-Laws.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 40 to the financial statements.

AUDITORS

Messrs. Moores Rowland acted as auditors of the Company for the accounting period from 1st January, 1999 to 31st December, 1999. Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past two financial years.

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

On behalf of the Board

CHAN KWOK HUNG

CHAIRMAN

Hong Kong, 16th April, 2002