

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides management services to its subsidiaries.

During the year, the Group ceased its investments in Internet and technology related business. Its current subsidiaries are mainly engaged in property development and investment. Further details of the Company's principal subsidiaries are set out in note 16 to the financial statements.

FINANCIAL RESULTS

The Group's loss for the year ended 31st March, 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 68.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

During the year, the Group disposed part of its long-term investments. The cash flows derived thereon have largely been applied to reduce the borrowings of the Group, including the redemption of the 4.875% convertible guaranteed bonds on 15th December, 2000. Total interest-bearing debts of the Group reduced from HK\$1,913 million as at 31st March, 2000 to HK\$1,440 million as at 31st March, 2001. Approximately 61% of the debts, including the 5.30% convertible guaranteed bonds of HK\$496 million redeemed on 5th July, 2001, were repayable within one year.

As at 31st March, 2001, total cash and bank balances amounted to HK\$149 million. Total committed but undrawn banking facilities as at the year end was HK\$518 million. These facilities can be utilized by the Group to finance the construction costs of property development projects or for general working capital purpose.

The asset value of the Group diminished as a result of provisions made against the property portfolio. As a result, the year-end gearing ratio measured by the total interest-bearing debts over the total assets only showed a minor improvement from 51% to 50%, despite overall reduction in borrowings.

Funding and treasury policy

The Group adopts a prudent funding and treasury policy. Surplus funds are primarily maintained in the form of cash deposits with leading banks. The acquisition and development of properties are financed partly by internal resources and partly by secured bank loans. Repayments of bank loans are scheduled to match asset lives and project completion dates. All borrowings are denominated in Hong Kong dollars, Renminbi or United States dollars. Foreign currency exposure is monitored closely by the management and hedged to the extent desirable.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Pledge of assets

Certain properties of the Group having an aggregate book value of HK\$2,080 million as at 31st March, 2001 were pledged to secure banking facilities of the Group.

Contingent liabilities

At 31st March, 2001, the Group was contingently liable for HK\$66.5 million in respect of banking facilities granted to its jointly-controlled entities. Particulars of this and other contingent liabilities of the Group are set out in note 32 to the financial statements.

Employees and remuneration policies

The Group employs over 100 employees in Hong Kong, in other parts of the People's Republic of China and overseas. Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover, provident fund, personal accident insurance and educational subsidies to all eligible staff. A share option scheme was adopted by the Company in September, 1993 to enable the board of directors to grant share options to selected employees as incentives.

DIVIDEND

The directors do not recommend the payment of any dividends for the year ended 31st March, 2001 (2000: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements is set out on pages 69 and 70. This summary is not part of the audited financial statements.

FIXED ASSETS

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

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 15 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 16 to the financial statements.

JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Company's and the Group's interests in jointly-controlled entities and associates are set out in notes 17 and 18 to the financial statements, respectively.

BORROWINGS

Details of the convertible guaranteed bonds are shown in note 24 to the financial statements.

Particulars of the Group's interest-bearing bank loans are set out in note 25 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the share capital, share options and warrants of the Company during the year, together with the reasons therefor, are set out in note 27 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements.

CAPITALISATION OF INTEREST EXPENSES AND OTHER BORROWING COSTS

Interest expenses and other borrowing costs totalling HK\$63,339,000 (2000: HK\$61,936,000) were capitalised during the year in respect of the Group's property development projects.

PURCHASE, SALE OR REDEMPTION OF CONVERTIBLE BONDS AND LISTED SECURITIES

During the year under review and up to the date of this report, the Company had repurchased and cancelled the following bonds:

- (i) 4.875% convertible guaranteed bonds due 15th December, 2000 (the "A Bonds")

Month	Principal sum of the A Bonds being repurchased US\$	Price		Aggregate consideration US\$
		Highest	Lowest	
May, 2000	9,510,000	98.00	97.50	9,272,750
June, 2000	1,800,000	97.50	97.50	1,755,000
August, 2000	1,950,000	98.63	98.63	1,923,188
October, 2000	330,000	99.25	99.25	327,525
November, 2000	500,000	99.38	99.38	496,875
	<u>14,090,000</u>			<u>13,775,338</u>

The remaining outstanding A Bonds of US\$35,630,000 were redeemed in full at their principal amount upon maturity on 15th December, 2000.

- (ii) 5.30% convertible guaranteed bonds due 5th July, 2001 (the "B Bonds")

Month	Principal sum of the B Bonds being repurchased US\$	Price		Aggregate consideration US\$
		Highest	Lowest	
April, 2001	6,925,000	116.63	116.36	8,061,341
May, 2001	400,000	117.20	117.20	468,800
	<u>7,325,000</u>			<u>8,530,141</u>

The remaining outstanding B Bonds of US\$47,090,000 were redeemed in full at 118% of their principal amount upon maturity on 5th July, 2001.

Save as disclosed above, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's listed securities during the year ended 31st March, 2001.

DISTRIBUTABLE RESERVES

At 31st March, 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$413,443,000. In addition to the retained profits of the Company, the Company's share premium account of HK\$126,628,000 can be applied under the Companies Ordinance to pay up bonus shares issuable to shareholders of the Company.

COMPLIANCE WITH 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year, except that the non-executive directors are not appointed for specific terms and are subject to retirement by rotation in accordance with the articles of association of the Company.

AUDIT COMMITTEE

The Company established an audit committee, comprising William Chung-Yue Fan, Daniel Chi-Wai Tse and Patrick Yen-Tse Tsai. In establishing the terms of reference for the committee, the directors have made reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December, 1997.

DIRECTORS

The directors of the Company during the year were:

James Sai-Wing Wong

Madeline May-Lung Wong

William Chung-Yue Fan

Herman Man-Hei Fung

Roderick Sue-Cheun Wong

*(Appointed on 10th August, 2000 and thereafter ceased
as alternate director to Madeline May-Lung Wong)*

Daniel Chi-Wai Tse*

Patrick Yen-Tse Tsai*

* *Independent non-executive director*

In accordance with the Company's articles of association, Daniel Chi-Wai Tse and Patrick Yen-Tse Tsai will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and senior management of the Group are set out on pages 10 to 12.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

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

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 other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2001, the interests of the directors in the securities of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

The Company

(a)

Name of director	<i>Note</i>	Nature of interests	Number of shares held
James Sai-Wing Wong	1	Corporate	632,284,758
Madeline May-Lung Wong	1	Corporate	632,284,758
William Chung-Yue Fan		Personal	7,085
Herman Man-Hei Fung		Family	14,171

(b) Pursuant to the Company's share option scheme, Herman Man-Hei Fung has options to subscribe for 12,000,000 shares in the Company at an exercise price, subject to adjustment in certain events, of HK\$0.70 per share. The exercise period expires on 16th March, 2003 and none of these options was exercised during the year.

DIRECTORS' INTERESTS IN SECURITIES (Continued)**Associated Corporations**

Name of director	Notes	Name of associated corporations	Nature of interests	Number/ face value of securities held	Type of securities
James Sai-Wing Wong	2	Hon Kwok Land Capital Limited	Corporate	US\$6,925,000	B Bonds
	3	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	10% convertible guaranteed bonds ("C Bonds")
Madeline May-Lung Wong	2	Hon Kwok Land Capital Limited	Corporate	US\$6,925,000	B Bonds
	3	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	C Bonds
William Chung-Yue Fan	4	Wise Pacific Investment Limited	Corporate	2,000	Ordinary shares
Patrick Yen-Tse Tsai	5	Hon Kwok Land Treasury II Limited	Personal	HK\$2,000,000	C Bonds

Notes:

1. *These shares are beneficially held by Chinney Investments. More than one-third of the equity capital of Chinney Investments is owned by Chinney Holdings Limited which in turn is owned by Lucky Year. James Sai-Wing Wong and Madeline May-Lung Wong are directors and beneficially own more than one-third of the equity capital of Lucky Year and, accordingly, are regarded as interested in the 632,284,758 shares of the Company under the SDI Ordinance.*
2. *James Sai-Wing Wong and Madeline May-Lung Wong are deemed to have beneficial interests in US\$1,300,000 of the B Bonds held by a wholly-owned subsidiary of Chinney Holdings Limited and US\$5,625,000 of the B Bonds held by Chinney Investments by virtue of their respective interest in the equity capital of Lucky Year as described in note 1.*
3. *On 21st March, 2001, Chinney Investments subscribed for a principal sum of HK\$141 million of the C Bonds. By virtue of the SDI Ordinance and the directors' interest in the equity capital of Lucky Year as described in note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to have beneficial interests in these C Bonds as at 31st March, 2001. The bonds were subsequently issued and allotted to Chinney Investments on 18th April, 2001 upon fulfilment of all conditions pertaining to the issue of the C Bonds after year end.*

DIRECTORS' INTERESTS IN SECURITIES (Continued)

Notes: (Continued)

4. *These shares are held by Gold Sound Enterprises Limited of which William Chung-Yue Fan is both a director and a shareholder.*
5. *On 21st March, 2001, Patrick Yen-Tse Tsai subscribed for a principal sum of HK\$2 million of the C Bonds. By virtue of the SDI Ordinance, Patrick Yen-Tse Tsai is deemed to have a beneficial interest in these C Bonds as at 31st March, 2001. The bonds were subsequently issued and allotted to Patrick Yen-Tse Tsai on 18th April, 2001 upon fulfilment of all conditions pertaining to the issue of the C Bonds after year end.*

Save as disclosed above, as at 31st March, 2001, none of the directors or their associates had any beneficial interest in the securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Except as disclosed above, at no time during the year was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

1. Certain associates of Chinney Investments acted as contractors for foundation and superstructure construction work for the Group. Total construction costs amounting to approximately HK\$86,493,000 (2000: HK\$121,846,000) were incurred in respect thereof during the year.

James Sai-Wing Wong, Madeline May-Lung Wong, William Chung-Yue Fan and Herman Man-Hei Fung are directors of and have beneficial interests in Chinney Investments. Details of the transactions are described further in the section headed "Connected transactions".

2. During the year, the Company paid management fees of HK\$6,000,000 (2000: HK\$6,000,000) to Chinney Investments for the provision of general corporate management services.
3. William Chung-Yue Fan is a consultant to Fan & Fan, Solicitors which provides legal and other professional services to the Group and receives normal professional fees for such services. Total fees amounting to approximately HK\$2,264,000 (2000: HK\$1,680,000) were paid by the Group during the year.

Apart from the above, no director had a beneficial interest in any material contract to which the Company, any of its subsidiaries or fellow subsidiaries was a party during the year.

MANAGEMENT CONTRACT

The Company has entered into a management contract with Chinney Investments for the provision of general corporate management services. The contract is for an unspecified duration and can be terminated by either party by giving two months' notice in advance. Subsequent to the year end, the Company entered into an arrangement with Chinney Investments pursuant to which the management fees payable by the Company commencing from 1st April, 2001 onwards are waived until further notice. Except for Daniel Chi-Wai Tse and Patrick Yen-Tse Tsai, all of the directors of the Company who served during the year are also directors of Chinney Investments. Management fees paid in respect of this contract are disclosed under "Directors' interests in contracts" above.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2001, the following shareholders had an interest of 10% or more in the share capital of the Company, as 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
Chinney Investments	632,284,758
Chinney Holdings Limited	632,284,758
Lucky Year	632,284,758
Madeline May-Lung Wong	632,284,758
James Sai-Wing Wong	632,284,758

James Sai-Wing Wong, Madeline May-Lung Wong, Lucky Year, Chinney Holdings Limited and Chinney Investments are deemed to be interested in the same parcel of shares by virtue of Section 8(2) of the SDI Ordinance.

CONNECTED TRANSACTIONS

On 29th October, 1999, the Company applied for a waiver from strict compliance with connected transaction requirements as set out in Chapter 14 of the Listing Rules in respect of the on-going connected transactions (the "Transactions") between the subsidiaries of the Company and Kin Wing Chinney (BVI) Limited. The Stock Exchange agreed to grant a conditional waiver for a period of the three financial years ending 31st March, 2002 to the Company from the requirements of disclosure by press notice and prior approval of the independent shareholders as stipulated in Chapter 14 of the Listing Rules in connection with the Transactions on each occasion they arise. The Transactions were approved by the independent shareholders of the Company on 12th November, 1999. The independent non-executive directors of the Company have reviewed the Transactions during the year and confirmed that:

- (a) the Transactions were approved by the Company's board of directors;
- (b) the Transactions have been conducted by the Group in the ordinary and usual course of its business;

CONNECTED TRANSACTIONS *(Continued)*

- (c) the Transactions have been entered into on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (d) the Transactions have been carried out in accordance with the terms of the agreements governing such Transactions; and
- (e) the aggregate value of the Transactions was HK\$86,493,000 and did not exceed the cap amount of 12% of the book value of the net tangible assets of the Group as at 31st March, 2001.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, purchases from the Group's five largest suppliers accounted for 80% of the total purchases for the year. Purchases from the Group's largest supplier included therein totalled 35%. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

Two of the Group's five largest suppliers were associates of Chinney Investments, a substantial shareholder of the Company. James Sai-Wing Wong, Madeline May-Lung Wong, William Chung-Yue Fan and Herman Man-Hei Fung are directors of, and have beneficial interests in Chinney Investments.

Save as disclosed above, none of the directors, their associates or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

PENSION SCHEME

Details of the pension scheme of the Group and the employers' pension costs charged to the profit and loss account for the year are set out in notes 2 and 6 to the financial statements, respectively.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 33 to the financial statements.

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
Herman Man-Hei Fung
Managing Director

Hong Kong SAR, 17th July, 2001