

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The Company’s principal activities have not changed during the year and consisted of property development and investment. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements.

SEGMENTAL INFORMATION

The Group’s turnover and loss from operating activities for the year ended 31 March 2001 are attributable to property development and investment activities in Hong Kong and in the People’s Republic of China.

RESULTS AND DIVIDENDS

The Group’s loss for the year ended 31 March 2001 and the state of affairs of the Company and the Group at that date are set out on pages 24 to 64.

The directors do not recommend the payment of any dividend for the year.

REPORT OF THE DIRECTORS (Continued)**SUMMARY OF 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, is set out below.

RESULTS

	Year ended 31 March				
	2001	2000	1999	1998	1997
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
TURNOVER	23.2	22.7	—	—	—
LOSS BEFORE TAX	(1,124.4)	(51.8)	(8.4)	(9.0)	(12.0)
Tax	—	(0.5)	—	—	—
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	(1,124.4)	(52.3)	(8.4)	(9.0)	(12.0)

ASSETS AND LIABILITIES

	As at 31 March				
	2001	2000	1999	1998	1997
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
TOTAL ASSETS	591.1	1,500.8	485.3	489.3	499.5
TOTAL LIABILITIES	(698.7)	(812.5)	(108.3)	(103.8)	(105.0)
NET ASSETS/(LIABILITIES)	(107.6)	688.3	377.0	385.5	394.5

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 notes 13 and 14 to the financial statements.

PROPERTY UNDER REDEVELOPMENT

Details of movements in the Company's and the Group's property under redevelopment during the year are set out in note 15 to the financial statements.

REPORT OF THE DIRECTORS (Continued)

SUBSIDIARIES

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

ASSOCIATE

Particulars of the Company's and the Group's interest in an associate are set out in note 17 to the financial statements.

PROMISSORY NOTE PAYABLE, BANK LOAN AND OTHER BORROWINGS

Details of the promissory note payable, bank loan and other borrowings of the Company and the Group are set out in notes 24 and 25 to the financial statements.

INTEREST CAPITALISED

Interest of nil (2000: HK\$644,000) was capitalised during the year in respect of the Company's and the Group's property under redevelopment.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with reasons therefore, are set out in note 26 to the financial statements.

CONVERTIBLE NOTE

Details of convertible note are set out in note 25 to the financial statements.

PURCHASE, SALE OR REDEMPTION 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 the Group during the year are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS (Continued)

DISTRIBUTABLE RESERVES

At 31 March 2001, the Company had no distributable reserves as calculated under Section 79B of the Hong Kong Companies Ordinance. The Company's share premium account may be distributed by way of fully paid up bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$35,400 (2000: HK\$15,600).

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of turnover and purchases attributable to the Group's five largest customers and suppliers, respectively, is less than 30%.

DIRECTORS

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

Executive directors:

Mr. Chan Fat Leung, Alexander	(resigned on 20 September 2001)
Mr. Chan Fat Chu, Raymond	(appointed on 20 October 2000 and resigned on 10 July 2001)
Mr. Yeung Sau Chung	(appointed on 28 March 2001)
Mr. Liu Shun Chuen	(appointed on 28 March 2001)
Mr. Tang Chun Wai, John	(resigned on 1 June 2000)
Mr. Ha Yue Fuen, Henry	(resigned on 25 October 2000)

Independent non-executive directors:

Ms. Tam Chi Ling, Elaine	
Ms. Chan Yuk, Foebe	(appointed on 28 March 2001)
Mr. Wan Chi Shing	(resigned on 29 March 2001)

In accordance with article 87 of the Company's articles of association, Mr. Yeung Sau Chung, Mr. Liu Shun Chuen and Ms. Chan Yuk, Foebe will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In accordance with articles 117 and 118 of the Company's articles of association, Ms. Tam Chi Ling, Elaine, will retire by rotation and, being eligible, will offer herself for re-election.

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

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

DIRECTORS' SERVICE CONTRACTS

The Company entered into a service contract with Mr. Chan Fat Leung, Alexander on 1 January 2000, for a period of three years from 1 January 2000. Pursuant to this contract, Mr. Chan is entitled to a remuneration of HK\$1,200,000 per annum plus a discretionary bonus payable at the discretion of the board of directors. The service contract with Mr. Chan was terminated with effect on 20 September 2001.

The Company entered into a service contract with Mr. Ha Yue Fuen, Henry on 18 January 2000, for a period of three years commencing from 3 January 2000. Pursuant to this contract, Mr. Ha is entitled to a remuneration of HK\$680,000 per annum plus a discretionary bonus payable at the discretion of the board of directors. The service contract with Mr. Ha was terminated on 25 October 2000.

Save as disclosed herein, none of the directors being proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries was entered into or existed during the year.

REPORT OF THE DIRECTORS (Continued)**DIRECTORS' INTERESTS IN SECURITIES**

As at 31 March 2001, none of the directors and their associates had any interests in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)), or had any rights to subscribe for equity or debt securities of the Company, which are required to be recorded in the register kept under section 29 of the SDI Ordinance or which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

The Company has a share option scheme (the “Scheme”) approved by the shareholders in the extraordinary general meeting held on 13 December 1999 under which the directors may, at their discretion invite any full time employees, including full time executive directors, of the Group to take up options to subscribe for ordinary shares of HK\$0.25 each of the Company subject to the terms and conditions stipulated in the Scheme. The exercise price is adjustable in accordance with the provisions of the Scheme. No options have been granted under the Scheme during the year. Subsequent to the balance sheet date, on 22 June 2001, the Company granted share options to certain directors to subscribe for the Company’s ordinary shares. Details of these share options granted are as follows:

	Number of options granted on 22 June 2001*	Exercise price HK\$
Yeung Sau Chung	16,850,000	0.25
Liu Shun Chuen	16,850,000	0.25

* None of these share options have been exercised since the date of grant.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company’s directors, 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.

REPORT OF THE DIRECTORS (Continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 March 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
Tem Fat Hing Fung (Holdings) Limited	200,250,000
TEMFAT Investments (Holdings) Limited (<i>Note</i>)	200,250,000

Note: TEMFAT Investments (Holdings) Limited is a wholly-owned subsidiary of Tem Fat Hing Fung (Holdings) Limited, and therefore Tem Fat Hing Fung (Holdings) Limited is deemed to be interested in the 200,250,000 shares in accordance with the SDI Ordinance.

As at the date of this report, 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
Tem Fat Hing Fung (Holdings) Limited	195,750,000
TEMFAT Investments (Holdings) Limited (<i>Note</i>)	195,750,000

Note: TEMFAT Investments (Holdings) Limited is a wholly-owned subsidiary of Tem Fat Hing Fung (Holdings) Limited, and therefore Tem Fat Hing Fung (Holdings) Limited is deemed to be interested in the 195,750,000 shares in accordance with the SDI Ordinance.

Save as disclosed above, no person 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.

CONNECTED TRANSACTION

During the year, the Group had a connected transaction, further details of which are set out in notes 4 and 31(a) to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

PENSION SCHEME

In accordance with the Mandatory Provident Fund Schemes Ordinance, the Group contributed to a Mandatory Provident Fund Scheme for the Group's employees based on applicable rates of monthly salary in accordance with government regulations.

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 3 and 7 to the financial statements, respectively.

REPORT OF THE DIRECTORS (Continued)

PRACTICE NOTE 19 TO THE LISTING RULES

1. Advances by the Company to an affiliated company

Background

Cheung Wo Hing Fung Enterprises Limited (“CWHF”) was an affiliated company of the Company beneficially owned by the Group as to 49% and Dalton Blue Limited as to 51%. Dalton Blue Limited is a joint venture company owned in equal shares by Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited (collectively the “Dalton Owners”). CWHF is the foreign partner of Shanghai Westgate Mall Co., Ltd. (“SHWG”), a co-operative joint venture formed in the People’s Republic of China (the “PRC”). The principal asset of SHWG is the Westgate Mall in Shanghai, the PRC. Further details of the acquisition by the Company of the interests in CWHF were given in the Company’s circular dated 18 November 1999.

Advances

On 31 January 2000, the Company entered into a supplemental deed to the shareholders agreement (the “CWHF Agreement”) whereby the Company became a party to the CWHF Agreement. Under the CWHF Agreement, the Company is required to advance loans to CWHF (“CWHF Loans”) pro rata to its share of equity interests in CWHF for working capital purposes. The CWHF Loans were unsecured, interest-free, and had no fixed terms of repayment.

Upon completion of the debts restructuring exercises (the “Debt Restructuring Exercises”) on 18 September 2001, as a result of its disposal of CWHF, the Company no longer had any advances to CWHF.

Counter indemnities relating to facilities granted to an affiliated company

Pursuant to a facility agreement dated 26 June 1997 entered into between SHWG and various banks and financial institutions, SHWG obtained a transferable term loan facility of up to US\$100 million. This facility is unsecured, bears interest at an annual rate of 0.6% over LIBOR and is guaranteed by the Dalton Owners. On 31 January 2000, the Company executed two deeds of counter indemnity (“Counter Indemnities A”) in favour of the Dalton Owners in respect of their obligations under the guarantees. The guarantee provided by the Company pursuant to the Counter Indemnities A is 49% of the Dalton Owners’ exposure under their respective guarantees.

Pursuant to two facility agreements dated 25 November 1999 and 15 December 1999, entered into between SHWG and Shanghai Pudong Development Bank (“SPD Bank”) respectively, SPD Bank granted two term loan facilities of up to RMB50 million each to SHWG (the “SPD Facilities A”). The SPD Facilities A bear interest at the rate of 0.4875% per month and are secured by two standby letters of credit issued by The Bank of East Asia Limited (“EA Bank”) in favour of SPD Bank in the aggregate amount of US\$13,666,108. The obligations of EA Bank under the standby letters of credit are secured by the Dalton Owners under two guarantees both dated 29 November 1999 in favour of EA Bank. On 28 August 2000, the Company executed two deeds of counter indemnity (“Counter Indemnities B”) in favour of the Dalton Owners in respect of their obligations under the guarantees in favour of EA Bank. The share of liability undertaken by the Company pursuant to Counter Indemnities B was 49% of the Dalton Owner’s exposure under the respective guarantees. This was in proportion to the Company’s equity interest in CWHF.

REPORT OF THE DIRECTORS (Continued)

SPD Bank has agreed to extend the SPD Facilities A pursuant to two facility agreements dated 17 November 2000 and 14 December 2000 entered into between SPD Bank and SHWG (the “SPD Extended Facilities A”), respectively. The SPD Extended Facilities A were secured by two standby letters of credit issued by EA Bank in favour of SPD Bank in the aggregate amount of USD12,621,542. The obligations of EA Bank under the standby letters of credit are secured by the Dalton Owners under two guarantees both dated 23 November 2000 in favour of EA Bank. On 18 December 2000, the Company executed two deeds of counter indemnity (“Extended Counter Indemnities B”) in favour of the Dalton Owners in respect of their obligations under guarantees in favour of EA Bank. The share of liability undertaken provided by the Company pursuant to the Extended Counter-Indemnities B was 49% of the Dalton Owners’ exposure under their respective guarantees.

Pursuant to a facility agreement dated 20 June 2000 entered into between SHWG and SPD Bank, SPD Bank granted a term loan facility of up to RMB100 million to SHWG (the “SPD Facility B”). The SPD Facility B bears interest at the rate of 0.4875% per month and is secured by a standby letter of credit issued by EA Bank in favour of SPD Bank in the amount of US\$14,060,000. The obligations of EA Bank under the standby letter of credit are indemnified by the Dalton Owners under two guarantees both dated 15 June 2000 in favour of EA Bank. On 28 August 2000, the Company executed two deeds of counter indemnity (“Counter Indemnities C”) in favour of the Dalton Owners in respect of their obligations under the guarantees in favour of EA Bank. The share of liability undertaken by the Company pursuant to Counter Indemnities C was 49% of the Dalton Owners’ exposure under their respective guarantees.

Pursuant to a facility agreement dated 30 October 2000 entered into between SPD Bank and SHWG, SHWG obtained a term loan facility of up to RMB50,000,000 (the “SPD Facility C”). The SPD Facility C bears interest at a rate of 5.94% per annum and is secured by a standby letter of credit issued by EA Bank in favour of SPD Bank in the amount of USD6,434,737. The obligations of EA Bank under the standby letter of credit are secured by the Dalton Owners under two guarantees both dated 21 October 2000 in favour of EA Bank. On 18 December 2000, the Company executed two deeds of counter indemnity (“Counter Indemnities D”) in favour of the Dalton Owners in respect of their obligations under the guarantees in favour of EA Bank. The share of liability undertaken by the Company pursuant to Counter Indemnities C was 49% of the Dalton Owners’ exposure under their respective guarantees.

Pursuant to a facility agreement dated 22 December 2000 entered into between SPD Bank and SHWG, SHWG obtained a term loan facility of up to RMB80,000,000 (the “SPD Facility D”). The SPD Facility D bears interest at a rate of 5.94% per annum and is secured by a standby letter of credit issued by EA Bank in favour of SPD Bank in the amount of USD10,099,473. The obligations of EA Bank under the standby letter of credit are secured by the Dalton Owners under two guarantees both dated 12 December 2000 in favour of EA Bank. On 15 January 2001, the Company executed two deeds of counter indemnity (“Counter Indemnities E”) in favour of the Dalton Owners in respect of their obligations under the guarantees in favour of EA Bank. The share of liability undertaken by the Company pursuant to Counter Indemnities C was 49% of the Dalton Owners’ exposure under their respective guarantees.

REPORT OF THE DIRECTORS (Continued)**Summary**

In summary, the aggregate of the CWHF Loans and Counter Indemnities A, C, D and E and the Extended Counter Indemnities B amounted to approximately HK\$629,173,000, representing approximately 685% of the Group's net liabilities, based on its audited consolidated financial statements for the year ended 31 March 2001.

Following the completion of Debt Restructuring Exercises on 18 September 2001, the counter indemnities in relation to facilities granted to CWHF were released.

The unaudited consolidated balance sheet of CWHF as at 31 March 2001, being the latest practicable date for the preparation of such balance sheet before disposal, is set out below.

	CWHF HK\$'000	The Group's attributable interest HK\$'000
Fixed assets	1,953,536	957,233
Other long term assets	3,874	1,898
Current assets	52,572	25,760
Current liabilities	(401,203)	(196,589)
Long term liabilities	<u>(1,036,669)</u>	<u>(507,968)</u>
	<u>572,110</u>	<u>280,334</u>

Further details were included in the announcements of the Company dated 30 March 2000 and 28 August 2000, respectively.

2. Breach of the terms of a bank loan and a promissory note

Details of breach of the terms of a bank loan and a promissory note are set out in note 2 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has 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 of Hong Kong Limited (the "Listing Rules"), except that the independent non-executive directors of the Company during the year are not appointed for specific terms and 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.

REPORT OF THE DIRECTORS (Continued)

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference which deal clearly with its authorities and duties pursuant to the revised Code of Best Practice as stated in Appendix 14 of the Listing Rules. The audit committee comprises Ms. Tam Chi Ling, Elaine and Ms. Chan Yuk, Foebe, who are independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire, and a resolution for their re-appointment as auditors of the Company will be proposed, at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Yeung Sau Chung

Executive Director

Hong Kong, 4 October 2001