

## 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, 2002.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides management services to its subsidiaries. Its subsidiaries are mainly engaged in property development and investment. There have been no changes in the nature of the Group's principal activities during the year. Further details of the Company's principal subsidiaries are set out in note 17 to the financial statements.

### FINANCIAL RESULTS

The Group's profit for the year ended 31st March, 2002 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 77.

### 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 31st March, 2002 is set out in note 4 to the financial statements.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Liquidity and financial resources

During the year, the 5.3% convertible guaranteed bonds were repaid through internal resources and medium-term debt financing including the issue of 10% convertible guaranteed bonds and new bank loans secured by cash deposits of a substantial shareholder. The bank loans in respect of the Group's certain investment properties have also been restructured from medium term to long term. Following the above financing activities, the liquidity of the Group has improved. As at 31st March, 2002, the current ratio of the Group, as measured by total current assets over total current liabilities, was 1.96 compared to 1.01 as at last year end.

Total interest-bearing debts and net debts (i.e. interest-bearing debts less cash and bank balances) of the Group reduced from HK\$1,440 million and HK\$1,291 million respectively as at 31st March, 2001 to HK\$1,304 million and HK\$1,113 million respectively as at year end. Before the scheduled pre-sale of a development project which is to be commenced in the coming months and further re-scheduling of bank loans to long term, approximately 35% of the debts were due and repayable within one year. Total cash and bank balances including time deposits amounted to HK\$191 million as at 31st March, 2002.

The gearing ratio of the Group, as measured by total interest-bearing debts over total assets, improved from 50% at the beginning of the year to 47% at year end.

## REPORT OF THE DIRECTORS *(Continued)*

### MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

#### **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 and bear interest at floating rates except for the 10% convertible guaranteed bonds. Foreign currency exposure is monitored closely by the management and hedged to the extent desirable. As at 31st March, 2002, the Group had no material exposure under foreign exchange contracts or any other hedging instruments.

#### **Pledge of assets**

Certain properties and time deposits of the Group having a carrying value of HK\$1,907 million and HK\$25 million respectively as at 31st March, 2002 were pledged to secure banking facilities of the Group. The entire issued share capital of two of the Group's subsidiaries and aggregate shareholder loans of HK\$220 million were pledged or assigned to Lucky Year Finance Limited ("Lucky Year"), a substantial shareholder of the Company, to secure certain banking facilities of the Company as disclosed in the circular of the Company dated 11th June, 2001.

#### **Contingent liabilities**

As at 31st March, 2002, the Group had no contingent liability in respect of banking facilities granted to its jointly-controlled entities. Particulars of the 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, 2002 (2001: Nil).

**REPORT OF THE DIRECTORS** *(Continued)***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 78 and 79. 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 14 to the financial statements.

**PROPERTIES UNDER DEVELOPMENT**

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

**INVESTMENT PROPERTIES**

Details of movements in the investment properties of the Group are set out in note 16 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\$47,804,000 (2001: HK\$63,339,000) were capitalised during the year in respect of the Group's property development projects.

## REPORT OF THE DIRECTORS (Continued)

**PURCHASE, SALE OR REDEMPTION OF CONVERTIBLE BONDS AND SECURITIES**

During the year, the Group repurchased a principal sum of US\$7,325,000 of the 5.3% convertible guaranteed bonds (the "A Bonds") at premium ranging from 16.36% to 17.20%. The A Bonds with a remaining principal sum of US\$47,090,000 were redeemed in full at 118% of their principal amount upon maturity on 5th July, 2001. Details of the A Bonds repurchased and cancelled during the year were as follows:

Month	Principal sum of the A 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 A Bonds were listed in Luxembourg Stock Exchange and the repurchases were made through an agent.

Save as disclosed above, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's securities during the year ended 31st March, 2002.

**DISTRIBUTABLE RESERVES**

At 31st March, 2002, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$414,157,000. In addition to the retained profits of the Company, the Company's share premium account of HK\$126,628,000 may 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 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") 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.

**REPORT OF THE DIRECTORS** *(Continued)***AUDIT COMMITTEE**

The Company has established an audit committee, comprising William Chung-Yue Fan, Daniel Chi-Wai Tse and Patrick Yen-Tse Tsai. The audit committee comprises the two independent non-executive directors in compliance with the Code of Best Practice, and is established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. 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  
Daniel Chi-Wai Tse\*  
Patrick Yen-Tse Tsai\*

\* *Independent non-executive director*

In accordance with the Company's articles of association, Madeline May-Lung Wong and William Chung-Yue Fan will retire at the forthcoming annual general meeting and, being eligible, will 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 of the Company and the five highest paid individuals in the Group are set out in notes 9 and 10 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.

## REPORT OF THE DIRECTORS (Continued)

## DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2002, 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	Note	Nature of interest	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.

## Associated Corporations

Name of director	Notes	Name of associated corporations	Nature of interest	Number/face value of securities held	Type of securities
James Sai-Wing Wong	1	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	10% convertible guaranteed bonds ("B Bonds")
Madeline May-Lung Wong	1	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	B Bonds
William Chung-Yue Fan	2	Wise Pacific Investment Limited	Corporate	2,000	Ordinary shares
Patrick Yen-Tse Tsai		Hon Kwok Land Treasury II Limited	Personal	HK\$2,000,000	B Bonds

## REPORT OF THE DIRECTORS (Continued)

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

## Notes:

1. *These shares and bonds are beneficially held by Chinney Investments, Limited ("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 these shares and bonds under the SDI Ordinance.*
2. *These shares are held by Gold Sound Enterprises Limited of which William Chung-Yue Fan is both a director and a shareholder.*

Save as disclosed above, as at 31st March, 2002, 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' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed under the headings "Directors' interests in securities" above and "Share option scheme" below, 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 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**

- (a) During the year, certain subsidiaries of Chinney Investments acted as contractors for foundation and construction work on certain of the Group's property development projects. Total construction costs amounting to approximately HK\$55,125,000 (2001: HK\$86,493,000) were incurred in respect thereof during the year.

Details of the transactions are described further in the section headed "Ongoing Connected Transactions".

- (b) On 18th April, 2001, the principal amount of HK\$141 million and HK\$2 million of the B Bonds due April, 2003 were allotted to Chinney Investments and Patrick Yen-Tse Tsai respectively under the same terms and conditions as other independent bondholders. The consideration for the subscription of the B Bonds by Chinney Investments were satisfied by the repurchase of the principal amount of US\$5,625,000 of the 5.3% convertible guaranteed bonds due July, 2001 held by Chinney Investments valued at approximately HK\$51 million and the remaining balance of approximately HK\$90 million in cash.

## REPORT OF THE DIRECTORS *(Continued)*

### **DIRECTORS' INTERESTS IN CONTRACTS** *(Continued)*

- (c) In May, 2001, the Group obtained bank loan facilities of HK\$150 million through cash collaterals provided by Lucky Year, a substantial shareholder of the Company. In consideration of Lucky Year's provision of the cash security, the Group agreed to pay a commission of 1.75% per annum on the average principal amount of the cash security outstanding during the term of the bank loans to Lucky Year and counter-indemnify Lucky Year in respect of the cash security. As security for the counter-indemnity, the Group mortgaged the entire issued share capital of two of its subsidiaries and assigned shareholders' loans in an aggregate amount of HK\$220,245,000 to Lucky Year.
- (d) William Chung-Yue Fan is a consultant of 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\$957,000 (2001: HK\$2,264,000) were paid by the Group during the year.

James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in the above transactions (a) to (c) by virtue of the fact they are directors of and have beneficial interests in Lucky Year. William Chung-Yue Fan and Herman Man-Hei Fung are deemed to be interested in the above transactions (a) and (b) by virtue of the fact they are directors of and have beneficial interests in Chinney Investments.

Apart from the above, no director had a beneficial interest in any material contract to which the Company or any of its 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 may be terminated by either party by giving two months' notice in advance. During the year, the Company entered into an arrangement with Chinney Investments pursuant to which the management fees payable by the Company commencing 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.

### **SHARE OPTION SCHEME**

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 16th September, 1993 for the primary purpose of providing incentives to any employee (including any executive director) of the Company or any of its subsidiaries and will expire on 16th September, 2003.



## REPORT OF THE DIRECTORS (Continued)

**SHARE OPTION SCHEME** (Continued)

The maximum number of shares issued or which may be issued under the Scheme cannot exceed 10% of the issued share capital of the Company from time to time, excluding any shares issued pursuant to the Scheme. As at the date of this report, the total number of shares available for issue under the Scheme is 106,774,401 shares, representing 8% of the existing issued share capital of the Company.

The number of shares in respect of which options granted or which may be granted to any grantee of the Company is not permitted to exceed 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Scheme.

An option may be exercised at any time during a period not exceeding five years commencing one month after the date upon which the option is accepted and expiring on the last day of such period or 16th September, 2003, whichever is the earlier. The subscription price for the share under the Scheme is the higher of: (i) 80% of the average closing prices of the Company's shares on the five trading days immediately preceding the offer of the options; and (ii) the nominal value per share of the Company.

Under the Scheme, the consideration for the grant of the option is HK\$1 per grantee which must be paid on acceptance to the Company by the grantee within 28 days after the date of offer of the option.

On 1st September, 2001, Chapter 17 of the Listing Rules was amended whereby if the Company wishes to continue to grant options under the Scheme on or after 1st September, 2001, it must also comply with the new requirements set out therein.

The following is a summary of the outstanding share options of the Company:

Director	Date of options granted	Exercise price per share	Exercise period of share options	Outstanding options as at 1st April, 2001 and 31st March, 2002
Herman Man-Hei Fung	23rd January, 1998	HK\$0.70	16th March, 1998 to 15th March, 2003	12,000,000

During the year, no options were granted, exercised, cancelled or lapsed.

## REPORT OF THE DIRECTORS (Continued)

**SUBSTANTIAL SHAREHOLDERS**

At 31st March, 2002, 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	Percentage of the Company's share capital
Chinney Investments	632,284,758	47.39
Chinney Holdings Limited	632,284,758	47.39
Lucky Year	632,284,758	47.39
Madeline May-Lung Wong	632,284,758	47.39
James Sai-Wing Wong	632,284,758	47.39

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.

**ONGOING CONNECTED TRANSACTIONS**

On 29th October, 1999, the Company applied for a waiver from strict compliance with the 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 Chinney Contractors Company 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;
- (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\$55,125,000 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, 2002.

REPORT OF THE DIRECTORS *(Continued)***MAJOR CUSTOMERS AND SUPPLIERS**

During the year under review, purchases from the Group's five largest suppliers accounted for 64% of the total purchases for the year. Purchases from the Group's largest supplier included therein totalled 26%. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

One of the Group's five largest suppliers was a subsidiary 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.

**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, 11th July, 2002