

REPORT OF THE DIRECTORS

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31st March, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly-controlled entities are set out in notes 16, 17 and 18 to the financial statements, respectively.

RESULTS AND APPROPRIATIONS

Details of the Group's results are set out in the consolidated income statement on page 21.

The directors recommend the payment of a final dividend of 2 cents per ordinary share for the year to the shareholders whose names appear on the register of members of the Company on 5th September, 2002, amounting to approximately HK\$11,027,000.

FIVE YEAR FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the past five financial years is set out on pages 75 and 76.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

During the year, the Group acquired the remaining 50% interest in Kin Wing, a former associate of the Group, in May, 2001 and disposed its entire interest in Jackson Mercantile to Chinney Alliance in September, 2001. As a result, the Group's total assets increased to HK\$1,773 million (2001: HK\$1,411 million) and the total liabilities increased to HK\$630 million (2001: HK\$284 million).

REPORT OF THE DIRECTORS (Continued)

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**Liquidity and financial resources** (Continued)

As at 31st March, 2002, the total interest-bearing debts of the Group amounted to HK\$303 million. Approximately 87% of the debts were repayable within one year. After deducting the unpledged cash and bank balances of HK\$96 million at year end, the net interest-bearing debts of the Group was HK\$207 million. The increase in net interest-bearing debts of the Group was mainly due to the subscription of a principal sum of HK\$141 million of the 10% convertible guaranteed bonds issued by a wholly-owned subsidiary of Hon Kwok and the consolidation of the net interest-bearing debts of the Construction Division of HK\$23 million at year end. The maturity profile of the Group's interest-bearing debts is as follows:

	As at 31st March, 2002 HK\$ million	As at 31st March, 2001 HK\$ million
Less than one year or on demand	263	159
More than 1 year but not exceeding 2 years	32	2
More than 2 years but not exceeding 5 years	8	4
More than 5 years	–	1
	<hr/>	<hr/>
Total interest-bearing debts	303	166
	<hr/>	<hr/>
Cash and bank balances	98	104
Less: Pledged bank balances	2	–
	<hr/>	<hr/>
Unpledged cash and bank balances	96	104
	<hr/>	<hr/>
Net interest-bearing debts	207	62
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The gearing ratio, as measured by the net interest-bearing debts over the shareholders' funds, was 18.1% as at 31st March, 2002 (2001: 5.5%).

Funding and treasury policy

The Group adopts a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and United States dollars and bear interest at floating rates.

REPORT OF THE DIRECTORS *(Continued)*

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Pledge of assets

Certain inventories, trade debts, intercompany trade debts due from associates, bank balances, and properties, plant and equipment having an aggregate book value of HK\$264 million as at 31st March, 2002 and shares in certain associates were pledged to secure borrowings of the Group.

Contingent liabilities

As at 31st March, 2002, the Group was contingently liable for HK\$35 million in respect of guarantees provided for banking facilities utilised by jointly-controlled entities and HK\$5 million in respect of bills discounted with recourse. Details of these and other contingent liabilities of the Group are set out in note 37 to the financial statements.

Employees and remuneration policies

The Group, not including its associates and jointly-controlled entities, employs approximately 4,000 people 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.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 29 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$41 million for the purposes of business expansion. In addition, the Group acquired property, plant and equipment with a carrying value of approximately HK\$223 million as a result of the acquisitions of subsidiaries. Details of these and other movements in the property, plant and equipment of the Group and of the Company during the year are set out in note 14 to the financial statements.

REPORT OF THE DIRECTORS *(Continued)***INVESTMENT PROPERTIES**

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

DIRECTORS

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

James Sai-Wing Wong
 Madeline May-Lung Wong
 William Chung-Yue Fan* (appointed from non-executive director to independent non-executive director on 12th December, 2001)

Herman Man-Hei Fung
 Roderick Sue-Cheun Wong
 Frankie Yick-Cheung Lee
 Clement Kwok-Hung Young*
 John William Crawford* (resigned on 12th December, 2001)

* *Independent non-executive director*

In accordance with Article 104 of the Company's Articles of Association, Madeline May-Lung Wong and Clement Kwok-Hung Young retire by rotation and, being eligible, offer themselves for re-election.

No director has a service contract with the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

1. During the year, the Group had the following transactions with Hon Kwok, an associate of the Company:
 - (a) A subsidiary, which was acquired by the Company during the year, acted as a contractor for property development projects undertaken by subsidiaries of Hon Kwok. The amount of such contract work performed while it was a subsidiary of the Company amounting to approximately HK\$49,678,000.
 - (b) Pursuant to a conditional subscription agreement dated 21st March, 2001 between the Company, Hon Kwok and Hon Kwok Land Treasury II Limited, a wholly-owned subsidiary of Hon Kwok, the Company was allotted a principal sum of HK\$141 million of the 10% convertible guaranteed bonds issued by Hon Kwok Land Treasury II Limited on 18th April, 2001. The subscription monies were satisfied by Hon Kwok repurchasing the Company's holding of the principal sum of US\$5,625,000 of the 5.3% convertible guaranteed bonds issued by a wholly-owned subsidiary of Hon Kwok valued at approximately HK\$51 million and cash payment of approximately HK\$90 million.

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE (Continued)

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 Hon Kwok. Roderick Sue-Cheun Wong is also a director of Hon Kwok.

2. During the year, the Group had the following transactions with Chinney Alliance, an associate of the Company:
- (a) The Company received management fees amounting to HK\$1,750,000 from Chinney Alliance for the provision of administration and general services for the year ended 31st March, 2002.
 - (b) The Company disposed its entire interest in Jackson Mercantile to Chinney Alliance for a cash consideration of approximately HK\$9,869,000. The transaction was completed on 3rd September, 2001.
 - (c) On 8th January, 2002, Multi-Investment Group Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Chinney Alliance for the subscription of 550,000,000 new shares in Chinney Alliance at HK\$0.025 per share. The transaction was completed on 22nd January, 2002.

James Sai-Wing Wong and Herman Man-Hei Fung are directors of, and have beneficial interests in, Chinney Alliance. Madeline May-Lung Wong has a beneficial interest in Chinney Alliance.

Save as disclosed above, no contracts of significance to which the Company, its holding companies or any of its subsidiaries and fellow 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.

DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2002, the interests of directors in the securities of the Company and its associated corporations as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

The Company

Name of director	<i>Note</i>	Nature of interest	Number of shares held
James Sai-Wing Wong	1	Corporate	296,919,324
Madeline May-Lung Wong	1	Corporate	296,919,324
William Chung-Yue Fan		Personal	2,958,285
Herman Man-Hei Fung		Personal	10,040,000

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' INTERESTS IN SECURITIES (Continued)**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	2	Hon Kwok	Corporate	632,284,758	Ordinary shares
	2	Chinney Alliance	Corporate	961,957,982	Ordinary shares
	2	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	10% convertible guaranteed bonds
Madeline May-Lung Wong	2	Hon Kwok	Corporate	632,284,758	Ordinary shares
	2	Chinney Alliance	Corporate	961,957,982	Ordinary shares
	2	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	10% convertible guaranteed bonds
William Chung-Yue Fan		Hon Kwok	Personal	7,085	Ordinary shares
Herman Man-Hei Fung		Hon Kwok	Family	14,171	Ordinary shares
	3	Hon Kwok	Personal	12,000,000	Share options
	4	Chinney Alliance	Personal	8,000,000	Share options

Notes:

1. *These shares are beneficially held by Chinney Holdings. More than one-third of the equity capital of Chinney Holdings is owned by Lucky Year, of which James Sai-Wing Wong and Madeline May-Lung Wong are directors and shareholders.*
2. *James Sai-Wing Wong and Madeline May-Lung Wong are deemed to have beneficial interests in these shares and bonds held by the Company or its wholly-owned subsidiary by virtue of their respective interest in the equity capital of Lucky Year as described in note 1.*
3. *These share options can be exercised up to 15th March, 2003 at an exercise price of HK\$0.70 per share, subject to adjustment. During the year, no share options were exercised.*
4. *These share options can be exercised up to 12th July, 2009 at an exercise price of HK\$0.07 per share, subject to adjustment. During the year, no share options were exercised.*

REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

Save as disclosed above and other than certain nominee shares in subsidiaries held by James Sai-Wing Wong in trust for the Group, none of the directors or their associates had any beneficial interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance at 31st March, 2002.

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
Chinney Holdings	296,919,324
Lucky Year	296,919,324
Madeline May-Lung Wong	296,919,324
James Sai-Wing Wong	296,919,324

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

None of the directors, their spouses or children under the age of 18 had any rights to subscribe for securities of the Company or had exercised any such rights; and at no time during the year was the Company, its holding companies or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SHARES

There were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's shares during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchases attributable to the Group's five largest suppliers for the year was less than 30% of the Group's total purchases.

The aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 40% of the Group's turnover and turnover attributable to the Group's largest customer accounted for approximately 16% of the Group's turnover.

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

None of the directors, their associates or any shareholders whom to the knowledge of the directors own more than 5% of the Company's issued share capital has an interest in the Group's five largest customers.

DONATIONS

During the year, the Group made donations amounting to approximately HK\$67,500.

AUDIT COMMITTEE

The Company has established an audit committee comprising William Chung-Yue Fan and Clement Kwok-Hung Young.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied throughout the year ended 31st March, 2002 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 except that the non-executive directors are not appointed for specific terms and they are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years. A resolution will be submitted at the Annual General Meeting of the Company to re-appoint them.

On behalf of the Board
Herman Man-Hei Fung
Managing Director

Hong Kong SAR, 11th July, 2002