

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st July, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the financial statements.

RESULTS

The results of the Group for the year ended 31st July, 2002 are set out in the consolidated income statement on page 29.

The directors do not recommend the payment of a dividend.

RESERVES

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

DISTRIBUTABLE RESERVES

In the opinion of the directors, the Company has no reserves available for distribution to its shareholders. However, pursuant to the Companies Act 1981 of Bermuda, the Company's share premium account of HK\$399,499,000 can be distributed in the form of fully paid shares.

INVESTMENT PROPERTIES

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

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR PROPERTIES

Details of the major properties of the Group at 31st July, 2002 are set out on page 76.

GOLF RESORT UNDER CONSTRUCTION

Details of the movements in golf resort under construction of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements during the year in the share capital and warrants of the Company are set out in note 29 to the financial statements.

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Yip Kwong, Robert

(Chairman)

Ms. Cheng Kit Yin, Kelly

(Deputy Chairman and Chief Financial Officer)

Mr. Kam Shing

Mr. Chung Shui Ming

(appointed on 2nd February, 2002 and
resigned on 10th September, 2002)

Mr. Lo Sek Chiu, Vincent

(resigned on 3rd August, 2002)

Independent non-executive directors:

Dr. Wong King Keung, Peter

Dr. Lau Lap Ping

(appointed on 18th March, 2002)

Mr. Chung Shui Ming

(resigned on 2nd February, 2002)

Dr. Lau Lap Ping has been appointed for a term of two years commencing 18th March, 2002. The appointment of independent non-executive directors can be terminated by either party by notice in writing of not less than three months.

DIRECTORS AND SERVICE CONTRACTS (continued)

The independent non-executive directors are also subject to retirement by rotation in accordance with the Company's Bye-laws.

In accordance with Clause 87 of the Company's Bye-laws, Mr. Kam Shing shall retire and, being eligible, offers himself for re-election. All other remaining directors continue in office.

The director being proposed for re-election at the forthcoming annual general meeting has no service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31st July, 2002, the interests of the directors in the share capital of the Company and the associated corporation as recorded in the register maintained by the Company pursuant to section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

(i) Shares**Shares in the Company**

| Name of director | Personal interest | Corporate interest |
|--------------------------|-----------------------|-----------------------|
| | Number of shares held | Number of shares held |
| | | <i>(Note a)</i> |
| Mr. Yip Kwong, Robert | 27,000,000 | 819,518,739 |
| Ms. Cheng Kit Yin, Kelly | 71,574,000 | - |

Note a: These shares are owned by Central Securities Holdings Limited, a wholly-owned subsidiary of Everbest Holdings Group Limited which is a company wholly owned by Mr. Yip Kwong, Robert.

Shares in GreaterChina Technology Group Limited ("GreaterChina")

| Name of director | Personal interest | Corporate interest |
|--------------------------|-----------------------|-----------------------|
| | Number of shares held | Number of shares held |
| | | <i>(Note b)</i> |
| Mr. Yip Kwong, Robert | 1,201,500 | 280,673,394 |
| Ms. Cheng Kit Yin, Kelly | 44,046,020 | - |

Note b: 258,451,559 shares are owned by the Company, in which Mr. Yip Kwong, Robert was interested in 846,518,739 shares in the Company, representing approximately 37.5% interest in the Company as at 31st July, 2002 and 22,221,835 shares are owned by Central Securities Holdings Limited.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (continued)**(ii) Options****Options in the Company**

| Name of director | Date of grant | Exercise price HK\$ | Number of |
|----------------------------|---------------------|------------------------|---|
| | | | share options outstanding as at 1st August, 2001 and 31st July, 2002 |
| Mr. Yip Kwong, Robert | 5th March, 1997 | 0.43 | 5,000,000 |
| | 26th January, 2000 | 0.30 | 8,000,000 |
| | 22nd March, 2000 | 0.33 | 10,000,000 |
| Ms. Cheng Kit Yin, Kelly | 5th March, 1997 | 0.43 | 5,000,000 |
| | 26th January, 2000 | 0.30 | 4,000,000 |
| | 22nd March, 2000 | 0.33 | 10,000,000 |
| Mr. Kam Shing | 26th January, 2000 | 0.30 | 3,000,000 |
| Mr. Chung Shui Ming | 22nd March, 2000 | 0.33 | 10,000,000 |
| Mr. Lo Sek Chiu, Vincent | 12th February, 1996 | 0.53 | 3,000,000 |
| | 26th January, 2000 | 0.30 | 10,000,000 |
| Dr. Wong King Keung, Peter | 26th January, 2000 | 0.30 | 5,000,000 |

There were no options granted to or exercised by the directors during the year.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (continued)

(ii) Options (continued)

Options in GreaterChina

| Name of director | Date of grant | Exercise price HK\$ | Number of share options | | |
|--------------------------|---------------------|------------------------|--|-------------------------------|---|
| | | | Outstanding as at 1st August, 2001 | Granted during the year | Outstanding as at 31st July, 2002 |
| Ms. Cheng Kit Yin, Kelly | 19th December, 2000 | 0.218 | 16,000,000 | – | 16,000,000 |
| | 4th June, 2002 | 0.234 | – | 51,808,000 | 51,808,000 |
| Mr. Kam Shing | 19th April, 2002 | 0.234 | – | 1,000,000 | 1,000,000 |
| Dr. Lau Lap Ping | 19th April, 2002 | 0.234 | – | 1,000,000 | 1,000,000 |

Other than as disclosed above, at no time during the year was the Company, its ultimate holding company, or any subsidiaries of its ultimate holding company 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 executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, at 31st July, 2002, neither the directors nor the chief executives, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

SHARE OPTION SCHEMES

Pursuant to a special general meeting of the Company held on 30th September, 1994, the Company adopted an old share option scheme (the "Old Scheme") pursuant to which the directors were authorised to grant options to employees, including executive directors, of the Company or its subsidiaries to subscribe for shares of the Company at a price equal to the higher of the nominal value of the shares and an amount not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

SHARE OPTION SCHEMES (continued)

Options granted under the Old Scheme will entitle the holder to subscribe for shares from the date of grant up to 30th September, 2004.

As at 31st July, 2002, options to subscribe for an aggregate of 79,500,000 shares of the Company had been granted to certain directors and employees pursuant to the Old Scheme. No options were granted during the year ended 31st July, 2002.

On 10th January, 2002, the Company passed an ordinary resolution regarding the termination of the Old Scheme and adopted a new share option scheme (the "New Scheme") for the primary purpose of providing incentive to the eligible employees and directors of the Company. Under the terms of the New Scheme, the board of directors of the Company may, at their discretion, grant options to the participants who fall within the definition prescribed in the New Scheme including the employees and executive directors of the Company or its subsidiaries to subscribe for shares in the Company at a price equal to the highest of (i) an amount not less than the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options; (ii) the closing price of the shares on the Stock Exchange on the day of the offer of grant of the options; and (iii) the nominal value of the shares. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders. Options granted under the New Scheme will entitle the holder to subscribe for shares from the date of grant up to 9th January, 2012. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

No options were granted to any directors and employees of the Company during the year ended 31st July, 2002 pursuant to the New Scheme.

SHARE OPTION SCHEMES (continued)

The following table discloses movements in the Company's share options during the year:

| Name of director | Date of grant | Exercise price HK\$ | Number of share options | | | |
|----------------------------|---------------------|------------------------|--|---------------------------------|---------------------------------|---|
| | | | Outstanding as at 1st August, 2001 | Exercised during the year | Cancelled during the year | Outstanding as at 31st July, 2002 |
| Mr. Yip Kwong, Robert | 5th March, 1997 | 0.43 | 5,000,000 | - | - | 5,000,000 |
| | 26th January, 2000 | 0.30 | 8,000,000 | - | - | 8,000,000 |
| | 22nd March, 2000 | 0.33 | 10,000,000 | - | - | 10,000,000 |
| Ms. Cheng Kit Yin, Kelly | 5th March, 1997 | 0.43 | 5,000,000 | - | - | 5,000,000 |
| | 26th January, 2000 | 0.30 | 4,000,000 | - | - | 4,000,000 |
| | 22nd March, 2000 | 0.33 | 10,000,000 | - | - | 10,000,000 |
| Mr. Kam Shing | 26th January, 2000 | 0.30 | 3,000,000 | - | - | 3,000,000 |
| Mr. Chung Shui Ming | 22nd March, 2000 | 0.33 | 10,000,000 | - | - | 10,000,000 |
| Mr. Lo Sek Chiu, Vincent | 12th February, 1996 | 0.53 | 3,000,000 | - | - | 3,000,000 |
| | 26th January, 2000 | 0.30 | 10,000,000 | - | - | 10,000,000 |
| Dr. Wong King Keung, Peter | 26th January, 2000 | 0.30 | 5,000,000 | - | - | 5,000,000 |
| Total | | | 73,000,000 | - | - | 73,000,000 |
| Employees | 26th January, 2000 | 0.30 | 33,350,000 | (500,000) | (26,350,000) | 6,500,000 |
| | | | <u>106,350,000</u> | <u>(500,000)</u> | <u>(26,350,000)</u> | <u>79,500,000</u> |

SHARE OPTION SCHEMES (continued)

Details of the outstanding share options are as follows:

| Number of share options | Date of grant | Exercise price per share HK\$ | Exercise period |
|---|---------------------|-------------------------------------|---|
| 3,000,000 | 12th February, 1996 | 0.53 | From date of grant to 30th September, 2004 |
| 10,000,000 | 5th March, 1997 | 0.43 | From date of grant to 30th September, 2004 |
| 36,500,000 | 26th January, 2000 | 0.30 | From date of grant to 30th September, 2004 |
| 30,000,000 | 22nd March, 2000 | 0.33 | From date of grant to 30th September, 2004 |
| <hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> <u>79,500,000</u> | | | |

The options may be exercised at any time within the exercise period provided that the options have been vested. Generally, the options are vested in different tranches and are cancelled where the grantee ceased to be employed by the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the Group's transactions with GreaterChina, in which Ms. Cheng Kit Yin, Kelly is interested by virtue of her shareholding in GreaterChina and is the chairman of GreaterChina, and Mr. Kam Shing and Dr. Lau Lap Ping are non-executive directors of GreaterChina, are set out in note 39 (i) to (vii) to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE (continued)

Other than as disclosed above, no contracts of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company 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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more of the issued share capital of the Company as at 31st July, 2002.

MAJOR SUPPLIERS AND CUSTOMERS

The five largest customers of the Group for the year accounted for approximately 53% of the Group's turnover. The Group's largest customer accounted for approximately 41% of its turnover for the year.

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

As far as the directors are aware, neither the directors, their associates nor those shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest customers.

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.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st July, 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 except there was one independent non-executive director during the period from 3rd February, 2002 to 17th March, 2002.

AUDITORS

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

On behalf of the Board



Yip Kwong, Robert

Chairman

25th November, 2002