

Report of the Directors

The directors present their report together with the audited financial statements of the Company and its subsidiaries (collectively “the Group”) for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries, jointly-controlled entity and principal associates are set out in notes 17, 18 and 19 to the financial statements respectively.

There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 68.

The directors do not recommend the payment of any final dividend in respect of the year.

SEGMENT INFORMATION

An analysis of the Group’s turnover and contribution to results by principal activity and turnover by geographical area of operations for the year ended 31 December 2002 is set out in note 4 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 69. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 14 and 15 to the financial statements respectively.

SUBSIDIARIES

Particulars of the Company’s principal subsidiaries are set out in note 17 to the financial statements.

JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group’s interests in its jointly-controlled entity and principal associates are set out in notes 18 and 19 to the financial statements respectively.

CONVERTIBLE NOTES

Details of the Company’s convertible notes are set out in note 27 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the Company’s share capital, share options and warrants are set out in note 29 to the financial statements.

There are no provisions for pre-emptive rights under the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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RESERVES

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

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$150,000.

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

Cheung Chung Kiu

Yuen Wing Shing

Zhang Qing Xin

Lam Hiu Lo

Liang Kang

Chu Chow Wai (alternative director to Cheung Chung Kiu)

Independent non-executive directors:

Wong Wai Kwong, David

Lee Ka Sze, Carmelo

In accordance with bye-law 87 of the bye-laws of the Company, Zhang Qing Xin and Lam Hiu Lo will retire by rotation and, being eligible, will offer themselves for re-election as executive directors of the Company at the forthcoming annual general meeting.

Wong Wai Kwong, David and Lee Ka Sze, Carmelo, being re-elected as independent non-executive directors on 29 May 2002, hold such office only until the close of the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as independent non-executive directors.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 9 to 10 to the financial statements respectively.

DIRECTORS' SERVICE CONTRACTS

On 19 October 1993, Cheung Chung Kiu entered into a service contract with the Company for an initial term of three years commencing on 1 June 1993, which has continued thereafter until terminated by either party giving to the other not less than three months' notice in writing.

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 of compensation other than statutory compensation.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2002, the interests of the directors and chief executives and their associates in the securities of the Company or any of 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") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Interests in the Company's ordinary shares

Name of director	Nature of interest	Number of ordinary shares held
Cheung Chung Kiu	Corporate (note 1)	3,194,434,684
	Personal	53,320,000
Yuen Wing Shing	Personal	10,000,000
Zhang Qing Xin	Personal	13,600,000
Lam Hiu Lo	Personal	41,800,000
Liang Kang	Personal	26,664,000

(ii) Interest in the Company's convertible note

Name of director	Nature of interest	Convertible note held HK\$
Cheung Chung Kiu	Corporate (note 2)	100,000,000

(iii) Interests in Chongqing Industrial Limited's ordinary shares

Name of director	Nature of interest	Number of shares held
Cheung Chung Kiu	Corporate (note 3)	1,857,143
	Personal	1,000,000

(iv) Interest in Qualipak International Holdings Limited, a listed subsidiary of the Company

Name of director	Nature of interest	Number of shares held
Lee Ka Sze, Carmelo	Family	1,000,000

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

Notes:

- (1) The voting rights of these shares are exercisable by Chongqing Industrial Limited. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing Industrial Limited respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Cheung Chung Kiu and his associates.

- (2) The convertible note was held by Timmex Investment Ltd., in which Cheung Chung Kiu has a beneficial interest of 100%.
- (3) Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited own 857,143, 142,857 and 857,143 shares respectively in Chongqing Industrial Limited.

In addition to the above, certain directors have non-beneficial personal interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

Save as disclosed above and in the section "Directors' deemed interests in securities of associated corporations" below, none of the directors or chief executives or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations recorded in the register to be kept under Section 29 of the SDI Ordinance or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' DEEMED INTERESTS IN SECURITIES OF ASSOCIATED CORPORATIONS

As at 31 December 2002, Cheung Chung Kiu was deemed to have interests in the securities of the following associated corporations by virtue of his interests in Yugang International Limited. For the avoidance of doubt, Cheung Chung Kiu did not personally have any interest in these associated corporations.

Name of corporation	Class and/or description of securities	Number/value of securities held
Qualipak International Holdings Limited	Ordinary shares	1,189,896,360
Qualipak International Holdings Limited	Convertible notes	Principal value of HK\$150,000,000
Y.T. Realty Group Limited (formerly known as Prestige Properties Holdings Limited)	Ordinary shares	273,000,000

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SHARE OPTION SCHEME

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34, "Employee benefits", most of the detailed disclosures relating to the Company's share option scheme have been moved to note 29 to the financial statements.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' and chief executives' interests in the securities of the Company and its associated corporations" and "Directors' deemed interests in securities of associated corporations" above, and in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions set out in note 36 to the financial statements, no director had a material interest in any contract of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

As at the balance sheet date, the following interests of 10% or more of the issued 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	Approximate percentage (%)
Chongqing Industrial Limited (<i>note 1</i>)	3,194,434,684	37.79
Cheung Chung Kiu (<i>note 2</i>)	3,247,754,684	38.42

Notes:

- (1) The voting rights of these shares are exercisable by Chongqing Industrial Limited which is controlled by Cheung Chung Kiu.
- (2) Out of the 3,247,754,684 shares, 3,194,434,684 shares are held by Chongqing Industrial Limited and 53,320,000 shares are held by Cheung Chung Kiu personally.

Save as disclosed above, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and chief executives' interests in the securities of the Company and its associated corporations" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

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PURCHASE, REDEMPTION OR SALE 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.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$828,404,000. In addition, the Company's share premium account in the amount of HK\$840,629,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 38.6% of the total sales for the year and sales to the largest customer included therein amounted to 9.69%.

Purchases from the Group's five largest suppliers accounted for 32.41% of the total purchases for the year and purchases from the largest supplier included therein amounted to 18.45%.

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

LIQUIDITY AND CAPITAL RESOURCES

As at the balance sheet date, the Group's net current assets amounted to approximately HK\$1,107 million with a current ratio of 10.7. The cash and cash equivalents of the Group decreased from approximately HK\$648 million to HK\$595 million during the year.

The Group had short term banking facilities of approximately HK\$287 million as at 31 December 2002. The Group did not have any outstanding bank loans as at the balance sheet date.

CONNECTED TRANSACTIONS

On 9 May 2000, Faircom Limited ("Faircom"), a wholly-owned subsidiary of the Company, entered into a convertible note subscription agreement with Qualipak International Holdings Limited ("Qualipak"), a subsidiary of the Company listed on the Stock Exchange, in relation to the subscription by Faircom for a convertible note of Qualipak amounting to HK\$150,000,000. The Company had an interest of 51.03% in Qualipak at the date of the above subscription agreement. The convertible note is repayable on 21 June 2003 (the "Maturity Date") and bears interest at 5% per annum. Pursuant to the agreement, Faircom is entitled, but is not under any obligation, to convert the outstanding principal amount of the convertible note or part thereof (in amounts of not less than HK\$1,000,000) into shares, at any time prior to the Maturity Date, at HK\$0.081 per share in the first year, HK\$0.088 per share in the second year and HK\$0.096 per share in the third year. The reason for the above subscription is to provide funds for the general working capital and further investments by Qualipak. During the year, Faircom received interest on the convertible note of approximately HK\$7,594,000 (2001: HK\$7,594,000) and no conversion rights attaching to the note were exercised.

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CONNECTED TRANSACTIONS *(Continued)*

On 12 July 2000, Yugang Enterprises Limited ("YEL"), a wholly-owned subsidiary of the Company, entered into a sub-tenancy agreement for the premises situated at Rooms 3301-3304, China Resources Building, Hong Kong, with Chongqing Industrial Limited ("CQ"), a substantial shareholder of the Company. The monthly rental and other charges for the sub-tenancy is HK\$130,599, and a security deposit of HK\$258,023 was paid by YEL to CQ. The total rent paid by YEL over the period of the sub-tenancy, which commenced on 1 July 2000 and expired on 30 June 2002, was approximately HK\$3,096,000. The monthly rental represented an approximate 37.93% discount compared to monthly rental under the previous sub-tenancy agreement entered into between the same parties on 1 July 1996. YEL continued to pay rent to CQ after the expiration of the above sub-tenancy agreement until 17 October 2002 amounting to HK\$721,000 for the original premises and additional premises situated at Rooms 3305-3307, China Resources Building, Hong Kong.

On 17 October 2002, Honfame Trading Limited ("Honfame"), a wholly-owned subsidiary of the Company, entered into a sub-tenancy agreement for the premises situated at Rooms 3301-3307, China Resources Building, Hong Kong, with CQ, a substantial shareholder of the Company. The monthly rental and other charges for the sub-tenancy is HK\$77,869, and a security deposit of HK\$155,738 was paid by Honfame to CQ. The total rent and other charges to be paid by Honfame over the period of the sub-tenancy, which commenced on 18 October 2002 and will expire on 17 October 2003, is approximately HK\$934,000.

On 18 June 2001, the Company entered into an agreement with Timmex Investment Ltd. ("Timmex") in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$100,000,000 (the "Note"). Timmex is 100% beneficially owned by Cheung Chung Kiu, a director of the Company. The Note conferred the right on the holder to convert the whole or part of the principal amount of the Note into ordinary shares of the Company at any time from the date of its issue for a period of three years, at a conversion price of HK\$0.10 per share in the first year, HK\$0.11 per share in the second year and HK\$0.12 per share in the third year, subject to adjustment. The Note will mature for principal repayment on the third anniversary of the date of its issue. Interest on the Note is accrued from the date of issue on a day-to-day basis at 5% per annum on the principal amount of the Note and is payable annually in arrears. The holder of the Note is not entitled to attend or vote at any meeting of the Company by reason of its being the holder of the Note. The net proceeds from the issue of the Note, after deduction of expenses, amounted to approximately HK\$99.4 million, which will be used as general working capital of the Group. During the year, interest expense paid to Timmex amounted to HK\$5,000,000 (2001: HK\$2,110,000).

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not or was not in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange for any part of the year covered by the annual report.

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AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

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

Cheung Chung Kiu

Chairman

Hong Kong

28 March 2003