

The directors submit their report together with the audited accounts of the Group and of the Company for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company continued to be an investment holding company. The principal activities of its subsidiaries continued to be property investment, property trading and investment holding. Details of these activities are set out in note 26 to the accounts.

Over 50% of the Group's turnover for the year was derived from its property rental business in Hong Kong. An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 17.

The directors recommend the payment of a final dividend of HK1.5¢ per share which makes a total distribution of approximately HK\$12.0 million for the year ended 31 December 2002 (2001: HK\$15.9 million). Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 2 June 2003 to shareholders registered on 26 May 2003.

FIXED ASSETS

Movements in the fixed assets of the Group during the year are set out in note 12 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held by the Group are set out in page 55 and page 56.

Movements in the property held for development during the year are set out in note 14 to the accounts.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 20 and page 21.

At 31 December 2002, under the Companies Act 1981 of Bermuda, the reserves of the Company available for distribution, representing contributed surplus and capital redemption reserve net of accumulated losses, amounted to approximately HK\$1,069 million (2001: HK\$1,075 million).

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BANK LOANS

The Group's bank loans, which comprise term loans and revolving credit facilities, are secured by certain properties held by the Group. An analysis of these borrowings is set out in note 20 to the accounts.

FINANCIAL SUMMARY

Results, assets and liabilities of the Group for the last five financial years are summarised in page 57.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and turnover for the year attributable to the Group's major suppliers and customers are as follows:

	2002	2001
	%	%
Purchases		
– the largest supplier	15	17
– five largest suppliers combined	51	46
Turnover		
– the largest customer	13	31
– five largest customers combined	49	75

None of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the suppliers or customers noted above.

DIRECTORS

The directors who held office during the year and up to the date of this report are listed in page 2.

The Company's Bye-laws provide for all directors of the Company (including independent non-executive directors but excluding the chairman and/or the managing director) to retire by rotation. In accordance with Bye-law 87, Ms. Tung Wai Lan, Iris retires from office this year and, being eligible, offers herself for re-election at the forthcoming annual general meeting.

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

Pursuant to two respective ordinary resolutions passed at the annual general meeting of the Company held on 29 May 2002, Messrs. Lee Ka Sze, Carmelo and Wong Wai Kwong, David, independent non-executive directors, shall cease to hold offices from close of the forthcoming annual general meeting of the Company and each of them offers himself for re-election.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, the interests of directors in the securities of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register kept by the Company under section 29 of the SDI Ordinance, were as follows:

(i) Interest in the Company

Name of director	Nature of interest	No. of ordinary shares
Cheung Chung Kiu	Corporate	273,000,000 (Note 1)
Wong Chi Keung	Personal	2,000,000 (Note 2)

Notes:

- (1) Mr. Cheung Chung Kiu was deemed to be interested in 273,000,000 shares in the Company by virtue of his indirect shareholding in Funrise Limited which owned these shares. Funrise Limited was a wholly owned subsidiary of Yugang International (BVI) Limited, which was, in turn, a wholly owned subsidiary of Yugang International Limited. Mr. Cheung Chung Kiu and Chongqing Industrial Limited owned 0.63% and 37.79% of the issued share capital of Yugang International Limited respectively. Chongqing Industrial Limited was owned as to 35% by Mr. Cheung Chung Kiu, as to 30% by Prize Winner Limited which was owned by Mr. Cheung and his associates, and as to 30% and 5% by Peking Palace Limited and Miraculous Services Limited respectively. Peking Palace Limited and Miraculous Services Limited were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung Chung Kiu and his family.
- (2) The reference to 2,000,000 shares relates to options over 2,000,000 shares in the Company. Details of these options are set out in the section headed "Share Option Scheme" of this report.

(ii) Interest in The Cross-Harbour (Holdings) Limited ("Cross-Harbour")

Name of director	Nature of interest	No. of ordinary shares	Amount of 2005 convertible note
Cheung Chung Kiu	Corporate	56,812,492	HK\$117,000,000

Note: The 56,812,492 shares in, and the 2005 convertible note in the principal amount of HK\$117 million of, Cross-Harbour were held by Honway Holdings Limited, an indirect wholly owned subsidiary of the Company. By virtue of his deemed interest in the share capital of the Company, Mr. Cheung Chung Kiu was deemed to be interested in these shares and convertible note.

Apart from the above, as at 31 December 2002, there were no interests recorded in the register kept by the Company under section 29 of 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 as set out in Appendix 10 to the listing rules of the Stock Exchange.

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SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 22 December 1993, prior to amendments to Share Option Schemes (as set out in Chapter 17 of the listing rules of the Stock Exchange) coming into effect on 1 September 2001. According to the listing rules of the Stock Exchange as amended, the Company cannot grant any further options under the Scheme unless it complies with the new requirements of Chapter 17. However, all options granted prior to 1 September 2001 shall remain in full force and effect.

A summary of the Scheme is set out below:

- | | |
|---|---|
| 1. Purpose of the Scheme | To provide incentive or reward to executive management and employees. |
| 2. Participants of the Scheme | Eligible full-time employees including executive directors of the Company and its subsidiaries. |
| 3. Total number of shares available for issue under the Scheme and percentage of issued share capital as at 28 March 2003 | 65,248,741 shares (8.19%). |
| 4. Maximum entitlement of each participant under the Scheme | 25% of the aggregate number of shares issued and issuable under the Scheme. |
| 5. Period within which the shares must be taken up under an option | 10 years commencing from the date of grant of such option. |
| 6. Minimum period for which an option must be held before it can be exercised | Subject to the discretion of the directors or authorised committee in accordance to the Scheme from time to time. |
| 7. Amount payable on acceptance of the option | Nominal amount of HK\$10.00. |
| 8. Basis of determining the exercise price | The exercise price is the higher of:
(a) 80% of the average closing price of the existing shares of the Company on the Stock Exchange on the five trading days immediately preceding the date of offer of such option; and
(b) the nominal value thereof. |
| 9. Remaining life of the Scheme | The Scheme expires on 21 December 2003. |

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Particulars of outstanding options at the beginning and at the end of the year and of options granted under the Scheme are as follows:

Type of participant	No. of outstanding options at the beginning of the year	No. of outstanding options at the end of the year	Date of grant	Vesting period	Exercisable period	Exercise price per share
<i>Directors</i>						
Wong Chi Keung	2,000,000	2,000,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860
<i>Other employees</i>	100,000	Nil (Note 2)	4 Jul 1994	4 Jul 1994 to 4 Jan 1997	4 Jan 1995 to 3 Jul 2004	HK\$1.8288
	190,000	100,000 (Note 2)	16 Jul 1996	16 Jul 1996 to 16 Jul 1999	16 Jan 1997 to 15 Jul 2006	HK\$0.9488
	300,000	300,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860

Notes:

- (1) The consideration paid by each participant for the grant of such number of options set opposite his/her name as noted above is HK\$10.
- (2) During the year, options over a total of 190,000 shares in the Company were cancelled by reason of resignation of the option holders.

Save as aforesaid, no options expired, and no options were granted, exercised or were cancelled during the year.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Save for the Scheme noted above, at no time during the year was the Company or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangements whose objects are, or one of whose objects is, to enable 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.

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DIRECTORS' INTERESTS IN CONTRACTS

Mr. Lee Ka Sze, Carmelo, is a partner of Messrs. Woo, Kwan, Lee & Lo and as such has an interest in the normal remuneration paid by the Company to that firm for the professional services rendered to the Company.

Save as aforesaid, no contracts of significance in relation to the Group's business to which the Company, or its subsidiaries, or its fellow subsidiaries, or its 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

Given below are the names of all parties which were, directly or indirectly, interested in ten per cent or more in the issued share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at 31 December 2002, as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

Name of shareholder	No. of ordinary shares
Cheung Chung Kiu	273,000,000
Chongqing Industrial Limited	273,000,000
Yugang International Limited	273,000,000
Yugang International (BVI) Limited	273,000,000
Funrise Limited	273,000,000
Chan Chun Wai	123,293,201

Note: The above references to 273,000,000 shares in the Company represent the same lot of shares. Such shares, representing approximately 34.25% of the then issued share capital of the Company, were owned by Funrise Limited. This lot of shares relates to the same corporate interest of Mr. Cheung Chung Kiu in the Company as disclosed in the section headed "Directors' Interests in Securities" of this report.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company did not redeem any of its share capital. Neither the Company nor any of its subsidiaries purchased or sold any shares in the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws, and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer shares on a pro-rata basis to existing shareholders.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the listing rules of the Stock Exchange throughout the year.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors, namely Messrs. Lee Ka Sze, Carmelo and Wong Wai Kwong, David. The function of the Audit Committee is to assist the board of directors in providing an independent review of the effectiveness of the financial reporting process and internal control system of the Company.

AUDITORS

The accounts for the year were audited by PricewaterhouseCoopers whose term of office will expire upon the forthcoming annual general meeting. A resolution for the appointment of Ernst & Young as the Company's auditors for the subsequent year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wong Chi Keung
Managing Director

Hong Kong, 28 March 2003