

# Report of the Directors

The Directors are pleased to present their annual report and the audited financial statements of the Group and the Company for the year ended 31st December, 2002.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2002 are set out in notes 47, 48 and 49 to the financial statements respectively.

## RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 22 and in the accompanying notes to the financial statements.

The Directors do not recommend the payment of a final dividend.

## FIXED ASSETS

The Group spent HK\$24,735,000 on fixed assets, including HK\$2,239,000 on additions to investment properties in Hong Kong. The Group disposed of certain of its fixed assets with an aggregate carrying value of HK\$2,105,000.

The Group's investment properties and hotel property were revalued on 31st December, 2002 at HK\$1,922,116,000 and the resulting net revaluation deficit of HK\$443,217,000 has been charged to the income statement.

Details of these and other movements in fixed assets of the Group during the year are set out in note 14 to the financial statements.

## PROPERTIES UNDER DEVELOPMENT

The Group has invested in certain property development projects in Hong Kong and the United States of America. Additional expenditure incurred during the year amounted to HK\$21,730,000. An impairment loss of HK\$17,100,000 has been recognised in respect of these properties.

Details of these and other movements in the properties under development of the Group during the year are set out in note 18 to the financial statements.

## PROPERTIES

Particulars of major properties of the Group as at 31st December, 2002 are set out on pages 87 and 88.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the financial statements.

## SHARE OPTION SCHEMES

Particulars of each of the share option schemes of the Company and its subsidiary, Allied Properties, are set out in note 29 to the financial statements.

## DIRECTORS

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

### *Executive Directors:*

Lee Seng Hui  
Edwin Lo King Yau

### *Non-Executive Directors:*

Lee Su Hwei  
Arthur George Dew (re-designated on 24th July, 2002)

### *Independent Non-Executive Directors:*

Gordon Macwhinnie  
Wong Po Yan  
Arthur George Dew (re-designated as a Non-Executive Director on 24th July, 2002)  
David Craig Bartlett

In accordance with Article 105(A) of the Company's Articles of Association, Sir Gordon Macwhinnie and Mr. Edwin Lo King Yau will retire by rotation and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## TERMS OF OFFICE FOR THE NON-EXECUTIVE DIRECTORS

The terms of office of the Non-Executive Directors (including Independent Non-Executive Directors) are subject to re-appointment or retirement by rotation in accordance with Articles 96 and 105(A) of the Company's Articles of Association.

The consultancy agreement between the Company and Mr. Wong Po Yan ("Mr. Wong"), an Independent Non-Executive Director of the Company, expired on 29th March, 2003 and the continuance of the appointment of Mr. Wong as an Independent Non-Executive Director of the Company from 30th March, 2003 onwards, subject to the provisions of the Company's Articles of Association as amended from time to time, has been agreed between Mr. Wong and the Company.

**DIRECTORS' INTERESTS IN SHARES**

At 31st December, 2002, the following beneficial interests in the shares of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were held by Directors and their associates as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance:

<b>Name of Director</b>	<b>Number of shares</b>	<b>Nature of interest</b>
Lee Seng Hui	1,019,066,142 shares in the Company	Personal interest in 229,216 shares and other interest in 1,018,836,926 shares ( <i>Note</i> )
Lee Su Hwei	1,018,836,926 shares in the Company	Other interest ( <i>Note</i> )

Note: Mr. Lee Seng Hui and Ms. Lee Su Hwei are trustees of Lee and Lee Trust, being a discretionary trust which indirectly held 1,018,836,926 shares of the Company.

Save as disclosed above, no interests were held or deemed or taken (under the SDI Ordinance) to be held by any Directors and their associates in any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) at 31st December, 2002.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES**

At 31st December, 2002, none of the Directors of the Company had any personal interests in share options to subscribe for shares in the Company or the Company's subsidiary, Allied Properties, granted under their respective share option schemes.

No rights to subscribe for equity or debt securities of the Company or any of its subsidiaries had been granted to or exercised by any Directors or any of their spouses or children under eighteen years of age at any time during the year under review.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the year and up to the date of this report, Mr. Edwin Lo King Yau ("Mr. Lo") is a director for both the Company and Tian An which, through a subsidiary, is partly engaged in the business of money lending. Hence, Mr. Lo is considered to have interests in the said business which competes or is likely to compete with the businesses of the Group pursuant to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS (CONT'D)**

As the Board of Directors of the Company is independent from the board of the abovementioned company and Mr. Lo cannot control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of such company.

**DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance to which the Company or any of its subsidiaries was a party and in which the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate with the exception of granting of share options to subscribe for shares in the Company and its subsidiary, Allied Properties, under their respective share option schemes.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS**

At 31st December, 2002, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the only shareholder who was interested in 10% or more of the issued share capital of the Company was as follows:

Name of Shareholder	Number of shares held	%
Lee and Lee Trust	1,018,836,926	29.88

Note: Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, are trustees of Lee and Lee Trust, being a discretionary trust.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company at 31st December, 2002.

**CONNECTED TRANSACTIONS**

- (a) During the year, AG Capital Limited, a wholly-owned subsidiary of the Company which is engaged in the business of money lending, granted an unsecured standby facility of not exceeding HK\$300 million ("Facility") to UAF. UAF is an indirect subsidiary of the Company and the attributable proportion of its issued share capital held by the Group at 31st December, 2002 was 54.21%.

The purpose of the Facility was to provide general working capital to UAF. The Facility had not been drawn upon by UAF during the year under review. Loans granted under the Facility bear interest at a normal commercial rate of 3.5% over Hong Kong prime interest rate per annum and a commitment fee of 0.25% per annum is charged on the daily undrawn portion of the Facility.

Sir Gordon Macwhinnie and Mr. Lee Seng Hui, being Directors of the Company, are also directors of UAF.

**CONNECTED TRANSACTIONS (CONT'D)**

- (b) The Directors have noted the Consultation Paper issued by the Stock Exchange in January 2002 which indicates that the treatment of partly owned subsidiaries in regard to their status as a connected person under the Listing Rules is unclear and further that the Consultation Conclusion Report issued in January 2003 states that the Stock Exchange will amend the Listing Rules so that partly owned subsidiaries shall not be treated as “connected persons” under the Listing Rules, if no connected person(s) of a listed issuer (excluding connected person(s) at the subsidiary level) are together a substantial shareholder in such partly owned subsidiaries. Pending clarification and changes to the Listing Rules and as a matter of consistency, the Directors have restated details of an inter-group tenancy agreement dated 20th December, 2001 entered into between the Company (as tenant) and Hillcrest Development Limited (as landlord), an indirect partly owned subsidiary of the Company. The aforesaid tenancy agreement relates to the renewal of a lease of the premises at 60 Plantation Road, The Peak, Hong Kong for the provision of accommodation to an Executive Director of the Company for a term of 2 years commencing from 1st January, 2002 at a monthly rental of HK\$200,000.
- (c) On 24th July, 2002, the Company and Allied Properties jointly announced that a sale and purchase agreement (“Kalix Agreement”) was entered into on 23rd July, 2002 between the Company and AP Development Limited (“AP Development”), a wholly-owned subsidiary of Allied Properties which in turn is a subsidiary of the Company, for the acquisition by AP Development from the Company of the entire issued share capital of Kalix Investment Limited which holds a residential property in The Redhill Peninsula, Hong Kong and the assignment by the Company to AP Development of its rights and benefits in and to the shareholder’s loan for an aggregate consideration of HK\$22,000,000 payable in cash at completion on 1st August, 2002.

As the group of Allied Properties is engaged in Hong Kong property investment and development, the entering into the Kalix Agreement is consistent with its principal activity of property investment and development in Hong Kong. The terms of the Kalix Agreement were considered in the best interest of the Company and were on normal commercial terms which were fair and reasonable to the shareholders of the Company.

As the Company is the controlling shareholder and ultimate holding company of Allied Properties, the Kalix Agreement constitutes a connected transaction of Allied Properties. For the sake of completeness, the said announcement has been made in the joint names of the Company and Allied Properties and the Directors of the Company has provided details of the Kalix Agreement as above.

**CONNECTED TRANSACTIONS (CONT'D)**

- (d) As disclosed in the announcement of the Company dated 9th December, 2002, a put option agreement (“Put Option Agreement”) was entered into on 9th December, 2002 between UAF, an indirect subsidiary of the Company, Credia Co., Ltd. (“Credia”) and ITOCHU Finance Corporation (“IFC”) for the granting of a put option by Credia and IFC to UAF in respect of the entire interest held by UAF in Priva Corporation (“PRIVA”) for a consideration of ¥100. PRIVA is an unsecured personal loan company in Japan and has suffered from increasing losses over the past two years. Credia, IFC and UAF are shareholders of PRIVA. The put option granted by Credia and IFC to UAF is exercisable in full and once only at an amount equal to UAF’s percentage shareholding in PRIVA multiplied by the net assets of PRIVA as of the end of the nearest preceding calendar quarter or 80% of the price at which UAF acquired such shares, whichever is the higher, or at the price equal to UAF’s percentage shareholding multiplied by the net assets of PRIVA as of the end of the nearest preceding calendar quarter.

The entering of the Put Option Agreement has provided UAF with the opportunity to realise its interest in PRIVA in the medium term whilst UAF may retain such interest in PRIVA if its performance improves satisfactorily. The consideration of the Put Option Agreement was agreed on an arm’s length basis between the parties and based on the trading records of PRIVA.

As IFC is a partly owned subsidiary of ITOCHU Corporation (“ITOCHU”) which indirectly holds 25.09% interests in UAF, and ITOCHU is thus a substantial shareholder of UAF, the Put Option Agreement constitutes a connected transaction of the Company and is not subject to shareholders’ approval requirement pursuant to Rule 14.25(1) of the Listing Rules.

- (e) As disclosed in the joint announcement of the Company, Allied Properties and Sun Hung Kai on 19th December, 2002, a sale and purchase agreement (“Earnest Finance Agreement”) was entered into on 19th December, 2002 between Upper Selection Investments Limited (“Upper Selection”), an indirect wholly-owned subsidiary of Sun Hung Kai which in turn is an indirect subsidiary of the Company, and Easy Capital Investments Limited (“Easy Capital”), a wholly-owned subsidiary of UAF which in turn is also an indirect subsidiary of the Company. Pursuant to the Earnest Finance Agreement, Upper Selection agreed to sell to Easy Capital its entire shareholding in Earnest Finance Limited (“Earnest Finance”), a joint venture company set up by Upper Selection and Easy Capital, together with two assignments of shareholders’ loans for an aggregate consideration of HK\$87,500,000. Earnest Finance’s principal asset is the holding of the entire issued share capital of SHK Finance. SHK Finance is a licensed money lender and is engaged in the personal and consumer loan business.

Upon completion of the Earnest Finance Agreement on 24th January, 2003, UAF became an indirect holding company of SHK Finance which allowed UAF to acquire the goodwill and customer base of SHK Finance and thus enhance expansion of its market share in the consumer finance business. The terms of the Earnest Finance Agreement were determined after arm’s length negotiations and were concluded on normal commercial terms.

As each of Easy Capital and Upper Selection is a substantial shareholder of Earnest Finance and both are partly owned subsidiaries of the Company, and Earnest Finance is a subsidiary of the Company, the Earnest Finance Agreement constitutes a connected transaction of the Company and is not subject to shareholders’ approval requirement pursuant to Rule 14.25(1) of the Listing Rules.

## Report of the Directors (Cont'd)

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

### **DONATIONS**

The Group made charitable donations of HK\$265,000 during the year.

### **CORPORATE GOVERNANCE**

In the opinion of the Directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### **AUDITORS**

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Gordon Macwhinnie", is written over a horizontal line.

**Sir Gordon Macwhinnie**

*Chairman*

Hong Kong, 10th April, 2003