

# 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. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2002 are set out in notes 45, 46 and 47 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 19 and in the accompanying notes to the financial statements.

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

## FIXED ASSETS

During the year, the Group acquired fixed assets of HK\$22,000,000 through the acquisition of a subsidiary. Also, the Group spent HK\$19,989,000 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\$1,058,000.

The Group's investment properties and hotel property were revalued on 31st December, 2002 at HK\$2,009,616,000 and the resulting revaluation deficit of HK\$443,448,000 has been charged to the income statement.

Details of these and other movements in the fixed assets of the Group during the year are set out in note 13 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 16 to the financial statements.

## PROPERTIES

Particulars of major properties of the Group at 31st December, 2002 are set out on pages 83 and 84.

## SHARE CAPITAL AND WARRANTS

Details of movements in the share capital and warrants of the Company during the year are set out in notes 25 and 26 to the financial statements respectively.

## SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 27 to the financial statements.

**DIRECTORS**

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

*Executive Directors:*

Patrick S. W. Lee

Li Chi Kong

*Independent Non-Executive Directors:*

Gordon Macwhinnie

Henry Lai Hin Wing

In accordance with Article 105(A) of the Company's Articles of Association, Mr. Henry Lai Hin Wing will retire by rotation and, being eligible, offer himself for re-election.

**DIRECTORS' SERVICE CONTRACTS**

The Director proposed for re-election at the forthcoming Annual General Meeting does not have 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 INDEPENDENT NON-EXECUTIVE DIRECTORS**

The terms of office of the 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. Henry Lai Hin Wing ("Mr. Lai"), an Independent Non-Executive Director of the Company, expired on 31st January, 2003 and the continuance of the appointment of Mr. Lai as an Independent Non-Executive Director of the Company from 1st February, 2003 onwards, subject to the provisions of the Company's Articles of Association as amended from time to time, has been agreed between Mr. Lai and the Company.

**DIRECTORS' INTERESTS IN SHARES**

At 31st December, 2002, Mr. Patrick S. W. Lee, a Director of the Company, had 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"), 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>
Patrick S. W. Lee	(i) 2,700,000 shares in the Company	Personal interest
	(ii) 5,500,000 shares in Allied Group (Note)	Personal interest

Note: Allied Group is the ultimate holding company 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 ultimate holding company, Allied Group, granted under their respective share option schemes.

No rights to subscribe for equity or debt securities of the Company, its holding company, or any of its fellow subsidiaries or 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 BUSINESSES**

During the year and up to the date of this report, Messrs. Patrick S. W. Lee and Li Chi Kong, Directors of the Company, are considered to have interests in the following businesses which compete or are likely to compete with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"):

- (i) Mr. Li Chi Kong is a director of Kalix Investment Limited ("Kalix"), a company acquired by the Group from Allied Group on 1st August, 2002 and AG Capital Limited, a subsidiary of Allied Group, which are partly engaged in the businesses of property rental and money lending respectively;
- (ii) Mr. Patrick S. W. Lee is a director of Tian An which, through a subsidiary, is partly engaged in the business of money lending; and
- (iii) Messrs. Patrick S. W. Lee and Li Chi Kong are directors of Allied Kajima Limited which, through its subsidiaries, are partly engaged in the businesses of property rental and management services and hospitality related activities.

As the Board of Directors of the Company is independent from the boards of the abovementioned companies and none of the above Directors can control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

#### **DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance to which the Company, its holding company, or any of its fellow subsidiaries or 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, its holding company, or any of its fellow subsidiaries or 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 ultimate holding company, Allied Group, 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 shareholders interested in 10% or more of the issued share capital of the Company were as follows:

Name of Shareholder	Number of shares held	%
Sunhill Investments Limited (Note 1)	1,166,929,858	23.85
Capscore Limited (Note 2)	1,518,742,008	31.03
Allied Group	3,600,623,323 (Note 3)	73.58

Notes:

1. Sunhill Investments Limited is a wholly-owned subsidiary of Allied Group.
2. Capscore Limited is a wholly-owned subsidiary of Allied Group.
3. The number of shares held by Allied Group comprised the shareholdings of Allied Group and its subsidiaries, including but not limited to Sunhill Investments Limited and Capscore Limited.

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) As disclosed in the announcement of the Company dated 20th December, 2001 and the 2001 Annual Report of the Company, a tenancy agreement ("Tenancy Agreement") was entered into on 20th December, 2001 between Hillcrest Development Limited, a wholly-owned subsidiary of the Company, as the landlord and Allied Group, the controlling shareholder of the Company, as the tenant for the renewal of a lease of 60 Plantation Road, The Peak, Hong Kong for a term of two years commencing from 1st January, 2002 to 31st December, 2003 at a monthly rental of HK\$200,000. The rental was based on the prevailing market rental as reviewed by an independent firm of international property consultants. The Directors (including the Independent Non-Executive Directors) of the Company were of the view that the terms and conditions of the Tenancy Agreement were fair and reasonable.

As Allied Group is the controlling shareholder and ultimate holding company of the Company, the Tenancy Agreement constitutes a connected transaction of the Company.

- (b) On 24th July, 2002, the Company and Allied Group jointly announced that a sale and purchase agreement ("Kalix Agreement") was entered into on 23rd July, 2002 between AP Development Limited ("AP Development"), a wholly-owned subsidiary of the Company, and Allied Group, the controlling shareholder of the Company, for the acquisition by AP Development from Allied Group of the entire issued share capital of Kalix which holds a residential property in The Redhill Peninsula, Hong Kong and the assignment by Allied Group 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.

**CONNECTED TRANSACTIONS (CONT'D)**

The Group is engaged in Hong Kong property investment and development and the entering into the Kalix Agreement is consistent with the Company's 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 Allied Group is the controlling shareholder and ultimate holding company of the Company, the Kalix Agreement constitutes a connected transaction of the Company.

- (c) As disclosed in the joint announcement of the Company, Allied Group 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 United Asia Finance Limited ("UAF") which in turn is an indirect subsidiary of Allied Group, the controlling shareholder of the Company. Pursuant to the Earnest Finance Agreement, Upper Selection agreed to sell to Easy Capital its entire shareholding in 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 100% issued share capital of SHK Finance. SHK Finance is a licensed money lender and is engaged in the personal and consumer loan business.

The Company, being the holding company of Sun Hung Kai, considered the disposal of Earnest Finance (and therefore SHK Finance) would enable Sun Hung Kai to concentrate on its other lending activities and the business of QHA following the completion of Sun Hung Kai's acquisition of an approximately 28.53% interest in that company on 17th December, 2002. The terms of the Earnest Finance Agreement were determined after arm's length negotiations and were concluded on normal commercial terms.

As Upper Selection is an indirect subsidiary of the Company held through Sun Hung Kai and Easy Capital is a subsidiary of Allied Group, the controlling shareholder and ultimate holding company of the Company, the Earnest Finance Agreement constitutes a connected transaction of the Company.

The above connected transactions are not subject to shareholders' approval requirement under Rule 14.25(1) of the Listing Rules.

**PURCHASE, SALE OR REDEMPTION OF SECURITIES**

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

**DONATIONS**

The Group made charitable donations of HK\$65,000 during the year.

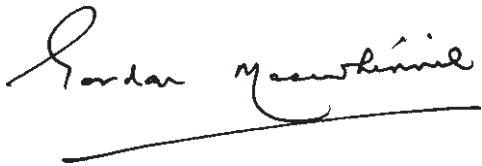
**CORPORATE GOVERNANCE**

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, reading "Gordon Macwhinnie", written over a horizontal line.

**Sir Gordon Macwhinnie**

*Chairman*

Hong Kong, 10th April, 2003