

## Report of the Directors

The Directors have pleasure in submitting their Report and the Audited Statement of Accounts for the financial year ended December 31, 2002.

### Principal Activities and Trading Operations

The principal activity of the Company is investment holding and those of its subsidiaries are set out in Note 32 to the Accounts on pages 62 and 63.

During the financial year, more than 90% of the trading operations of the Company and its subsidiaries in terms of both turnover and operating profit (before borrowing costs) were carried on in Hong Kong. An analysis of the principal activities of the trading operations of the Company and its subsidiaries during the financial year is set out in Note 3 to the Accounts on pages 48 and 49.

### Subsidiaries

Particulars of the Company's subsidiaries at December 31, 2002 are set out in Note 32 to the Accounts on pages 62 and 63.

### Results, Appropriations and Reserves

The results of the Group for the financial year ended December 31, 2002 are set out in the Consolidated Profit and Loss Account on page 37.

Appropriations of profits and movements in reserves during the financial year are set out in the Statements of Changes in Equity on page 40.

### Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is given on page 68.

### Dividends

An interim dividend of 1.5 cents per share was paid on October 23, 2002. The Directors now recommend the payment on July 3, 2003 of a final dividend of 1.5 cents per share in respect of the financial year ended December 31, 2002, payable to Shareholders on record as at May 29, 2003. This recommendation has been disclosed in the Accounts.

### Share Capital

During the financial year, upon exercises by certain grantees of options granted under the Company's Share Option Scheme (the "Company's Scheme"), a total of 5,234,400 ordinary shares of HK\$1.00 each of the Company, credited as fully paid, were allotted and issued by the Company at a subscription price of HK\$3.30 per share.

### Property, Plant and Equipment

Movements in property, plant and equipment during the financial year are set out in Note 12 to the Accounts on page 54.

### Bank Loans, Overdrafts and Other Borrowings

Particulars of all bank loans, overdrafts and/or other borrowings of the Company and of the Group as at December 31, 2002, all being repayable on demand or within a period not exceeding one year, are set out in Note 23 to the Accounts on page 57.

Details of certain convertible bonds previously issued and partly redeemed by the Company are set out in Note 23 to the Accounts on page 57.

## Donations

The Group made donations during the financial year totalling HK\$846,000.

## Directors

The Directors of the Company during the financial year were Mr. Stephen T. H. Ng, Dr. David K. D. Hsu, Mr. F. K. Hu, Mr. John T. Hung (resigned on February 1, 2002), Mr. Victor C. W. Lo, Dr. Dennis T. L. Sun, Mr. Paul Y. C. Tsui and Sir Gordon Y. S. Wu.

Subsequent to the year end, Mr. Paul Y. C. Tsui tendered his resignation as a Director of the Company, and the Board of Directors approved the appointment of Messrs. Quinn Y. K. Law and Samuel S. F. Wong as Directors of the Company, all with effect from April 1, 2003.

Messrs. Quinn Law and Samuel Wong, being appointed as Directors of the Company after the last Annual General Meeting, are due to retire from the Board in accordance with Article 78 of the Company's Articles of Association, and Dr. David Hsu and Mr. Victor Lo are also due to retire from the Board by rotation in accordance with Article 82, at the forthcoming Annual General Meeting. Dr. David Hsu has decided not to stand for re-election. The other retiring Directors, being eligible, offer themselves for re-election.

With the exception of the Chairman of the Company (who is not subject to retirement by rotation under the provisions of the Company's Articles of Association) together with Dr. David Hsu, Mr. Quinn Law, Mr. Victor Lo and Mr. Samuel Wong (who are due to retire from the Board at the forthcoming Annual General Meeting as mentioned above), the remaining three present Directors would continue to serve on the Board for a period of one or two years in future until they become due to retire from the Board by rotation in 2004 and 2005 in accordance with Article 82 of the Company's Articles of Association.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation.

## Directors' Interests in Shares

At December 31, 2002, Directors of the Company had the following beneficial interests in the ordinary shares of the Company, of its parent company, namely, The Wharf (Holdings) Limited ("Wharf"), and of a subsidiary of Wharf, namely, Harbour Centre Development Limited ("Harbour Centre"):

	No. of Shares	Nature of Interest
<b>The Company</b>		
Mr. Stephen T. H. Ng	1,000,000	Personal interest
<b>Wharf</b>		
Mr. Stephen T. H. Ng	650,057	Personal interest
<b>Harbour Centre</b>		
Mr. F. K. Hu	50,000	Corporate interest

*Note: The 50,000 shares regarding 'Corporate Interest' in which Mr. F. K. Hu was taken to be interested as stated above was the interest held by a corporation in general meetings of which Mr. Hu was either entitled to exercise (or was taken under the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") to be able to exercise) or control the exercise of one-third or more of the voting power.*

## Report of the Directors *continued*

During the year, a Director of the Company held certain personal interests in and exercised certain options to subscribe for ordinary shares of the Company granted under the Company's Scheme as follows:

Name of Director	Date granted (Day/Month/Year)	No. of ordinary shares represented by unexercised options outstanding as at 01/01/2002	No. of ordinary shares represented by options exercised during the financial year	No. of ordinary shares represented by unexercised options outstanding as at 31/12/2002	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK\$)	Consideration paid for the options granted (HK\$)
Mr. Stephen T. H. Ng	(i) 08/02/2000	1,500,000	–	1,500,000	01/04/2001 to 31/12/2009	10.49	10
	(ii) 19/02/2001	300,000	(150,000)	150,000	01/04/2003 to 31/12/2003	3.30	10
	(iii) 19/02/2001	800,000	(100,000)	700,000	01/07/2002 to 31/12/2005	3.30	10

Except as disclosed above, as recorded in the register kept by the Company under section 29 of the SDI Ordinance in respect of information required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the SDI Ordinance or to the Model Code for Securities Transactions by Directors of Listed Companies:

- (i) there were no interests held as at December 31, 2002 by any Directors and Chief Executive of the Company in securities of the Company and its associated corporations (within the meaning of the SDI Ordinance), and
- (ii) there existed during the financial year no rights to subscribe for equity or debt securities of the Company which were held by any Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial year of any such rights by any of them.

### Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 10% or more of the nominal value of any class of 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 December 31, 2002 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

Names	No. of Ordinary Shares
(i) Wharf Communications Limited	1,600,009,246
(ii) The Wharf (Holdings) Limited	1,600,009,246
(iii) Diplock Holdings Limited	1,602,624,303
(iv) WF Investment Partners Limited	1,602,624,303
(v) Wheelock and Company Limited	1,603,046,729
(vi) Bermuda Trust (Guernsey) Limited	1,603,046,729

*Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against parties (i) and (ii) above represent the same block of shares; such shareholdings are entirely duplicated or included in the shareholdings stated against party (iii) above, with the same duplication of the shareholdings in respect of (iii) in (iv), (iv) in (v) and (v) in (vi). All of the abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at December 31, 2002.*

### Interests in Contracts

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its ultimate holding company or any subsidiary of that 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 financial year or at any time during the financial year.

### Management Contracts

On November 1, 1999, the Company entered into a management service agreement with Wharf Limited, a wholly-owned subsidiary of Wharf, whereby Wharf Limited agreed to continue to provide or procure the provision of services including corporate secretarial services, treasury services, the provision of services in relation to corporate finance for obtaining borrowings and the provision of management personnel and other general corporate services to the Group after the Company became a publicly-listed company in November 1999. Messrs. S. T. H. Ng and P. Y. C. Tsui were Directors of both the Company and Wharf Limited during the financial year.

### Arrangements to Purchase Shares or Debentures

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception of the options to subscribe for ordinary shares of the Company and Wharf previously granted under the Company's Scheme and Wharf's Executive Share Incentive Scheme (the "Wharf's Scheme") to, *inter alia*, certain employees of the Company or its subsidiaries and certain executives of Wharf or its subsidiaries respectively, some of whom were Directors of the Company during the financial year.

Under the rules of the two schemes (subject to any such restrictions or alterations as may be prescribed or provided under the Listing Rules of the Stock Exchange from time to time in force), shares of the Company and Wharf would be issued at such prices, not being less than 80% and 90% respectively of the Company's and Wharf's average closing prices on the Stock Exchange for the five trading days immediately preceding the date of offer of the options, and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant, as determined by the boards of directors of the Company and Wharf respectively. During the financial year, certain shares of the Company and Wharf were allotted and issued to Mr. S. T. H. Ng, a Director of the Company, on his exercise of options under the Company's Scheme and the Wharf's Scheme respectively.

### Purchase, Sale or Redemption of Shares

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

### Auditors

The Accounts now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board  
**Wilson W. S. Chan**  
*Secretary*

Hong Kong, March 18, 2003