

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 18 and 19 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

Details of the Group's results and appropriations for the year ended 31st December, 2002 are set out in the consolidated income statement on page 26.

The directors do not recommend the payment of a dividend.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers were less than 30% of the total sales. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the total purchases.

SHARE CAPITAL AND WARRANTS

During the year, the Company issued and allotted 92,000,000 ordinary shares of HK\$0.10 each to its substantial shareholders for cash at HK\$0.20 per share.

The Company issued and allotted 276,489,471 ordinary shares of HK\$0.10 each by way of rights issue ("Rights Issue") at a subscription price of HK\$0.15 per rights share to the existing shareholders, in the proportion of one rights share for every two existing shares held, with a bonus issue of warrants on the basis of three units of subscription rights with initial subscription price of HK\$0.16, subject to adjustment, for every five rights shares taken up. Pursuant to the Rights Issue, 165,893,682 bonus warrants were issued to the shareholders. Details of these are set out in the circular issued by the Company dated 7th August, 2002.

Details of movements of share capital during the year and the outstanding warrants of the Company as at 31st December, 2002 are set out in notes 28 and 29 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

GROUP REORGANISATION

During the year, the Group carried out the following extensive group reorganisation:

Subscription of shares in Rosedale Hotel Group Limited (“Rosedale Hotel”, formerly known as China Land Group Limited)

Rosedale Hotel, a then non-wholly owned subsidiary of the Company listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”), entered into a subscription agreement (“Subscription Agreement”) with Ananda Wing On Travel (Holdings) Limited (“Ananda Wing On”), an associate of the Company and whose shares are also listed on the Hong Kong Stock Exchange, whereby Ananda Wing On agreed to subscribe for 1,000,000,000 new shares in Rosedale Hotel at an issue price of HK\$0.30 per share, amounting to a total consideration of HK\$300 million.

Placing of shares and convertible notes in Rosedale Hotel

Rosedale Hotel entered into a conditional placing agreement with an independent placing agent, in relation to the placing of 1,333,333,333 new shares in Rosedale Hotel on a best efforts basis at an issue price of HK\$0.30 per share. Due to the then market conditions, the shares were not substantially placed and the placing agreement lapsed on 31st October, 2002.

On 28th October, 2002, Rosedale Hotel entered into two convertible notes placing agreements with an independent placing agent for the issue of two convertible notes with the principal aggregate amount of HK\$66 million (the “First Convertible Note”) and HK\$45 million respectively, convertible into shares of Rosedale Hotel at an initial conversion price of HK\$0.30 for one new share of Rosedale Hotel.

On 31st October, 2002, Rosedale Hotel entered into another placing agreement (the “Placing Agreement”) with an independent placing agent for the placing of 45,000,000 new shares in Rosedale Hotel on a best endeavour basis at an issue price of HK\$0.20 per share.

Acquisition of Shropshire Property Limited (“Shropshire”)

Rosedale Hotel entered into a sale and purchase agreement with Ananda Wing On to acquire the entire issued share capital of and the shareholder’s loan of approximately HK\$44.4 million to Shropshire (the “First sale and purchase agreement”) for a consideration of HK\$110 million. The consideration was satisfied by the issue of 366,666,666 new shares in Rosedale Hotel at HK\$0.30 per consideration share. Shropshire has the right to acquire a 60% interest in Luoyang Golden Gulf Hotel Co., Ltd. (“Luoyang Golden Gulf”). The principal asset of Luoyang Golden Gulf is Golden Gulf Hotel located in Luoyang, the People’s Republic of China (the “PRC”).

GROUP REORGANISATION (continued)**Acquisition of Rosedale Hotel Group Limited ("Rosedale")**

Rosedale Hotel entered into another sale and purchase agreement with Paul Y. – ITC Construction Holdings Limited ("Paul Y. – ITC") to acquire the entire issued share capital of and the shareholder's loan of approximately HK\$482.5 million to Rosedale, a British Virgin Islands company, (the "Second sale and purchase agreement") for a cash consideration of HK\$250 million. The principal asset of Rosedale is Best Western Rosedale on the Park located in Causeway Bay, Hong Kong.

Acquisition of Makerston Limited ("Makerston")

Clever Basin Holdings Limited, a wholly owned subsidiary of Rosedale Hotel, entered into a sale and purchase agreement with Hutchison Hotels Holdings (International) Limited ("Hutchison Hotels Holdings") to acquire the entire issued share capital of and the shareholder's loan of approximately HK\$605.6 million to Makerston (the "Third sale and purchase agreement") for a total consideration of HK\$515 million. The consideration was satisfied by cash in the amount of HK\$150 million and the issue of a promissory note for the principal amount of HK\$365 million. Makerston holds a 95% indirect interest in Beijing Harbour Plaza Co., Ltd ("Beijing Harbour Plaza"), of which the principal asset is the Rosedale Hotel & Suites ■ Beijing (formerly known as Beijing Harbour Plaza Hotel) located in Beijing, the PRC.

The Placing Agreement and the First Convertible Note placing agreement were completed on 29th November, 2002. The Subscription Agreement, the First, the Second and Third sale and purchase agreements were completed on 2nd December, 2002.

Details of the above transactions are set out in the circular issued by the Company dated 5th October, 2002.

Upon the completion of the Subscription Agreement, the Placing Agreement, and the First, Second and Third sale and purchase agreements, the interest of Rosedale Hotel held by the Group was diluted from approximately 65.56% to approximately 32.20%.

INVESTMENT PROPERTIES

During the year, the Group disposed of investment properties of approximately HK\$28 million as a result of the dilution of the Group's interest in Rosedale Hotel. The Group also disposed of investment properties of approximately HK\$12 million at a consideration of HK\$10 million.

Details of these and other changes in investment properties of the Group during the year are set out in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, property, plant and equipment with an aggregate net book value of approximately HK\$1,479 million were disposed of as a result of the dilution of the Group's interest in Rosedale Hotel and disposal of subsidiaries.

The Group incurred expenditure of approximately HK\$334 million on acquisition of property, plant and equipment.

The Group also incurred an impairment loss of approximately HK\$346 million in respect of property, plant and equipment.

Details of these and other changes in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

PROPERTIES UNDER/HELD FOR DEVELOPMENT

During the year, the Group incurred expenditure of approximately HK\$4 million on properties under/held for development. Properties under/held for development with an aggregate net book value of approximately HK\$141 million were disposed of as a result of the dilution of the Group's interest in Rosedale Hotel.

Details of changes in the properties under/held for development of the Group during the year are set out in note 15 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

During the year, the Group acquired approximately 34.58% interest in Ananda Wing On for a consideration of approximately HK\$130 million and the Group's interests were subsequently diluted to approximately 32.21% after the issue of new shares and repurchase of its own shares by Ananda Wing On.

The Group's interest in PacificNet, Inc. (formerly known as PacificNet.com, Inc.), was diluted from approximately 29.52% to approximately 9.93% following the allotment and issue of new shares by PacificNet, Inc..

During the year, the Group acquired approximately 43.06% interest in Dong Fang Gas Holdings Limited ("Dong Fang Gas", formerly known as Companion Building Material International Holdings Limited), for a total consideration of approximately HK\$200 million.

SUBSIDIARIES AND ASSOCIATES (continued)

The Group's interests in Leadership Publishing Group Limited ("Leadership Publishing", formerly known as Sing Pao Media Group Limited), was diluted from approximately 27.97% to approximately 19.69% following the rights issue carried out by Leadership Publishing and dilution of the Group's interest in Rosedale Hotel. Subsequent to the balance sheet date, the Group's interests in Leadership Publishing were disposed of to Sun Media Group Holdings Limited.

During late 2001, China Enterprises Limited ("China Enterprises") received a notice from the New York Stock Exchange (the "NYSE") that China Enterprises was not in compliance with the NYSE requirement of an average global market capitalization of at least US\$15,000,000 over a consecutive 30 trading day period. China Enterprises submitted a business plan to the NYSE designed to bring its share price into compliance with the continuing listing standards within 18 months. Despite the plan, its share price subsequently fell below the NYSE's another continuing listing standard requiring an average closing price of its common stock of at least US\$1.00 for a consecutive 30 trading day period.

On 26th November 2002, China Enterprises's common stocks began trading on the OTC Bulletin Board of the United States of America (the "United States") after the NYSE suspended the trading of China Enterprises's common stock during late September 2002. An appeal was lodged to the NYSE for a review of the de-listing decision.

The NYSE notified China Enterprises on December 31, 2002 that the Securities and Exchange Commission of the United States granted the application of the NYSE for the removal of the common stock in China Enterprises from listing and registration on the NYSE under the Securities Exchange Act of 1934 effective on December 30, 2002.

During the year, the Group entered into an agreement with Vision Century Corporation Limited ("Vision Century") to acquire a 65% interest in Wintime Property Developments Limited ("Wintime") and the shareholder's loan of approximately HK\$131 million for a total consideration of HK\$43.2 million and to dispose of the Group's entire interest in Tenways Investments Limited together with the shareholder's loan of approximately HK\$44.5 million to Vision Century for a total consideration of HK\$43.2 million. The principal asset of Wintime is residential properties situated in Tuen Mun, Hong Kong.

The Group also entered into an agreement to dispose of its 60% interest in Shenzhen Longchen Xinyuan Industrial Co., Ltd., ("Longchen Xinyuan") to an independent third party for a consideration of approximately HK\$60 million. Longchen Xinyuan is principally engaged in the operation of a toll highway in Shenzhen, the PRC.

In addition, the Group disposed of its interests in certain PRC subsidiaries at an aggregate consideration of HK\$41 million.

Details of principal subsidiaries and associates at 31st December, 2002 are set out in notes 18 to 19 to the financial statements respectively.

DIRECTORS

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

Executive directors:

Dr. Chan Kwok Keung, Charles

(Chairman and Chief Executive Officer)

Dr. Yap, Allan

(Vice-Chairman)

Mr. Li Wa Kin

(Deputy Managing Director)

Ms. Chau Mei Wah, Rosanna

Ms. Chan Ling, Eva

(appointed on 22nd July, 2002)

Mr. Lien Kait Long

(resigned on 1st November, 2002)

Alternate director to Dr. Chan Kwok Keung, Charles:

Mr. Chan Kwok Hung

Alternate director to Dr. Yap, Allan:

Mr. Lui Siu Tsuen, Richard

Alternate director to Ms. Chau Mei Wah, Rosanna:

Mr. Lau Ko Yuen, Tom

Independent non-executive directors:

Mr. David Edwin Bussmann

Ms. Choy Hok Man, Constance

Mr. Tang Wei, Donald

(resigned on 25th January, 2002)

In accordance with Article 116 of the Company's Articles of Association, Dr. Yap Allan and Ms. Chau Mei Wah, Rosanna retire at the forthcoming annual general meeting by rotation. In addition, in accordance with Article 99 of the Company's Articles of Associations, Ms. Chan Ling, Eva who was appointed during the period from the last annual general meeting to the date of this report, retires at the forthcoming Annual General Meeting. All retiring directors, being eligible, offer themselves for re-election.

The directors proposed for re-election at the forthcoming Annual General Meeting do not have any service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive director is the period up to the retirement by rotation in accordance with the Company's Articles of Association.

BRIEF DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF**Directors**

Dr. Chan Kwok Keung, Charles, aged 48, is the chairman and chief executive officer of the Company. Dr. Chan holds an honorary degree of Doctor of Laws and a bachelor's degree in civil engineering and has over 23 years of international corporate management experience in the construction and property sectors as well as in strategic investments. He is also the chairman of ITC Corporation Limited ("ITC"), Paul Y. – ITC, Hanny Holdings Limited ("Hanny") and Dong Fang Gas, companies whose shares are listed on The Hong Kong Stock Exchange and China Enterprises. Dr. Chan is also an executive director of Ananda Wing On and a non-executive director of Downer EDI Limited ("Downer"), a company whose shares are listed on the Australian Stock Exchange and the New Zealand Stock Exchange.

Dr. Yap, Allan, aged 47, is the vice chairman of the Company. He obtained the honorary degree of Doctor of Laws and has over 21 years of experience in finance, investment and banking. Dr. Yap is the managing director of Hanny and the vice chairman of China Enterprises and Dong Fang Gas and an executive director of Ananda Wing On. Dr. Yap is also the chairman and chief executive officer of Burcon NutraScience Corporation ("Burcon"), a public listed company in Canada, a director of Provisions Suppliers Corporation Limited ("Provisions Suppliers"), a public listed company in Singapore and a director of Ding Ing Technology Co., Ltd. ("Ding Ing"), a public listed company in Taiwan.

Mr. Li Wa Kin aged 47, is the deputy managing director of the Company. He is also a President of Greater China Division of the Company. Mr. Li has more than 22 years of experience in international trade, investment and management. He is very familiar with PRC investment environment and legal system. Mr. Li joined the Company in 1998.

Ms. Chau Mei Wah, Rosanna, aged 48, is an executive director of the Company. She has over 23 years of experience in international corporate management and finance. Ms. Chau holds a bachelor's degree and a master's degree in commerce and is a member of the Hong Kong Society of Accountants, the CPA Australia and the Certified General Accountants' Association of Canada. She is the managing director of ITC and an executive director of Star East Holdings Limited ("Star East"), Paul Y. – ITC and Rosedale Hotel, companies whose shares are listed on the Hong Kong Stock Exchange, and a director of Burcon. Ms. Chan joined the Company in 2000.

Ms. Chan Ling, Eva, aged 37, joined the Company in 1996 and was appointed as an executive director of the Company in July 2002. Ms. Chan has 15 years of experience in auditing, accounting and finance in both international accounting firms and listed companies. She is a member of the Institute of Chartered Accountants in Australia, a fellow member of the Association of Chartered Certified Accountants and also a certified public accountant in Hong Kong. Ms. Chan is also the group financial controller of Ananda Wing On.

BRIEF DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF (continued)

Directors (continued)

Mr. David Edwin Bussmann, aged 49, was appointed as an independent non-executive director of the Company in February 2000. Mr. Bussmann has more than 20 years of experience in the investment and finance field, and is very familiar with investment issues related to China, as well as sectors such as technology, real estate, and direct investment. He previously worked at Salomon Brothers, Citibank, Bank of America and Prudential Asia.

Ms. Choy Hok Man, Constance, aged 42, was appointed as an independent non-executive director of the Company in April 2001. She holds directorship in a number of listed companies in Hong Kong. Ms. Choy is a practising solicitor in Hong Kong and England and is a partner of Sidley & Austin Brown & Wood, an international law firm.

Mr. Chan Kwok Hung, aged 44, is an alternate director of the Company. He holds a diploma in arts and has over 18 years of experience in trading business in China. Mr. Chan is the chairman of Rosedale Hotel, an executive director of ITC, Hanny and Dong Fang Gas. He is the younger brother of Dr. Chan Kwok Keung, Charles, the chairman and chief executive officer of the Company. Mr. Chan joined the Company in 2000.

Mr. Lau Ko Yuen, aged 51, is an alternate director of the Company. He has over 30 years of international corporate management experience in the construction industry. Mr. Lau is the chairman of Downer, the deputy chairman of ITC and Paul Y. – ITC and a director of New World CyberBase Limited, a company whose shares are listed on the Hong Kong Stock Exchange. Mr. Lau joined the Company in 2000.

Mr. Lui Siu Tsuen, Richard, aged 46, is an alternate director of the Company. He is a qualified accountant and worked for an international accounting firm for over 12 years and has previously held senior financial positions in both private and public listed companies. Mr. Lui is the deputy managing director of Hanny. He is also an executive director of Ananda Wing On, a director of Provisions Suppliers and Ding Ing. Mr. Lui joined the Company in 2000.

Senior Management

Mr. Chu Chin Lin, Simon, aged 37, is a Vice President – Greater China. He studied China Europe International Business School MBA M. Engineer of S.J.S.M.I.T. at Taiwan and Marketing at Kingston College in Vancouver, Canada. He has over 11 year of experience in China. ISO system management and logistic management. He is responsible for the management, business development and special project in China.

Ms. Law, Dorothy, aged 33, is a director of China Enterprises. She received her Bachelor of Commerce and Bachelor of Laws degrees from the University of British Columbia in Canada. Ms. Law is a Barrister and Solicitor licensed to practice law in British Columbia and has also been admitted as a Solicitor of the High Court of Hong Kong. Ms. Law is also a director of Burcon and corporate counsel of Hanny.

BRIEF DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF (continued)**Senior Management (continued)**

Ms. Cheung Sze Man, Sharen, aged 32, joined the Group as a Financial Controller in September 2002. She holds a Bachelor of Commerce degree and Bachelor of Arts degree from the University of Auckland in New Zealand, and is a member of both the Hong Kong Society of Accountants and CPA Australia. Prior to joining the Group, Ms. Cheung has worked in Hong Kong and overseas, and has accumulated diversified experience in audit and financial management in both private and public companies.

DIRECTOR'S INTERESTS IN SHARES AND WARRANTS

As at 31st December, 2002, the interests of the directors in the share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") which have been notified to the Company and the Hong Kong Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance), or which are required pursuant to section 29 of the SDI Ordinance to be entered in the register, or pursuant to the Model Code ("Model Code") for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange ("Listing Rules") referred to therein are as follows:

The Company

Name of director	Personal interests	Number of shares (Note 1)		Amount of warrants
		Family interests	Corporate interests	
Chan Kwok Keung, Charles (Note 2)	-	-	120,660,000	HK\$3,861,120

Notes:

- Share(s) of HK\$0.10 each in the capital of the Company.
- Dr. Chan Kwok Keung, Charles is deemed to be interested in 120,660,000 shares and warrants in an aggregate amount of HK\$3,861,120 of the Company held by Calisan Developments Limited ("Calisan") by virtue of his interest in Chinaview International Limited ("Chinaview"), details of which are disclosed under the heading "Substantial Shareholders".

Save as disclosed above as at 31st December, 2002, none of the Company's directors or their associates had any personal, family, corporate or other interests in any shares of the Company or any of its associated corporations, within the meaning of the SDI Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the Company's share option schemes are set out in note 30 to the financial statements.

The Company

The following table disclosed movement in the Company's share options held by a director during the year:

Name of director	Date of grant	Exercisable period	Exercise price Notes HK\$	Number of shares under option				
				Outstanding at 1.1.2002	Surrendered/ lapsed during the year	Adjustment	Outstanding at 31.12.2002	
Chan Ling, Eva*	21.07.1997	21.07.1998 to 20.07.2002	6.060	(i)	9,750	(9,750)	-	-
	12.01.2000	18.01.2000 to 17.01.2005	3.440	(ii)	50,000	-	(50,000)	-
			3.145		-	-	75,000	75,000
					<u>59,750</u>	<u>(9,750)</u>	<u>25,000</u>	<u>75,000</u>

As at the date of the directors' report, the total number of shares available for issue under the Company's share option scheme is 510,000 shares, representing 0.06% of the shares of the Company in issue at the date of this report.

* Chan Ling, Eva was appointed as a director on 22nd July, 2002.

Notes:

- (i) As the options lapsed before the Rights Issue become effective, no adjustments were required to be made to the exercise price and number of options granted.
- (ii) Following the Rights Issue, the exercise prices of the share options were adjusted to HK\$3.145 from its initial exercise price of HK\$3.440. The number of share options were also adjusted as a result of the Rights Issue.

China Enterprises

Details of the share option scheme of China Enterprises are set out in note 30 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the following persons were recorded in the register kept by the Company under section 16 of the SDI Ordinance for the purposes of sections 3 to 7 of the SDI Ordinance as being interested in shares representing 10% or more of the issued share capital of the Company:

Name	<i>Note</i>	Number of shares	Approximate shareholding percentage
Calisan	1	120,660,000	14.5%
Great Decision Limited	1	120,660,000	14.5%
Paul Y. – ITC Investments Group Limited	1	120,660,000	14.5%
Paul Y. – ITC Construction Holdings (B.V.I.) Limited	1	120,660,000	14.5%
Paul Y. – ITC	1	120,660,000	14.5%
Hollyfield Group Limited	1	120,660,000	14.5%
ITC Investment Holdings Limited (“ITC Investment”)	1	120,660,000	14.5%
ITC	1	120,660,000	14.5%
Galaxyway Investments Limited	1	120,660,000	14.5%
Chinaview	1	120,660,000	14.5%
Dr. Chan Kwok Keung, Charles	1	120,660,000	14.5%
Well Orient Limited	2	120,660,000	14.5%
Powervote Technology Limited	2	120,660,000	14.5%
Hanny Magnetics (B.V.I.) Limited	2	120,660,000	14.5%
Hanny	2	120,660,000	14.5%

Note:

1. Dr. Chan Kwok Keung, Charles owns the entire interest of Chinaview which in turn owns the entire interest in Galaxyway Investments Limited (“Galaxyway”). Galaxyway owns more than one-third of the entire issued ordinary share capital of ITC. ITC owns the entire interest of ITC Investment which owns the entire interest of Hollyfield Group Limited (“Hollyfield”). Hollyfield owns more than one-third of the entire issued share capital of Paul Y. – ITC. Paul Y. – ITC owns the entire interest of Paul Y. – ITC Construction Holdings (B.V.I.) Limited (“PYBVI”) which in turn owns the entire interest in Paul Y. – ITC Investments Group Limited (“PYITCIG”). PYITCIG owns the entire interest in Great Decision Limited (“GDL”) which in turn owns the entire interest in Calisan. Accordingly, GDL, PYITCIG, PYBVI, Paul Y. – ITC, Hollyfield, ITC Investment, ITC, Galaxyway, Chinaview and Dr. Chan Kwok Keung, Charles were deemed to be interested in 120,660,000 shares in the Company which were held by Calisan.
2. Well Orient Limited (“WOL”) is wholly-owned by Powervote Technology Limited (“PTL”) which is in turn owned by Hanny Magnetics (B.V.I.) Limited (“Hanny Magnetics”). Hanny Magnetics is wholly-owned by Hanny. PTL, Hanny Magnetics, Hanny were deemed to be interested in 120,660,000 shares in the Company which were held by WOL.

SUBSTANTIAL SHAREHOLDERS (continued)

Save as disclosed herein and so far as was known to any director of the Company, there was no person who was, directly or indirectly, interested in 10 percent or more of the issued share capital of the Company as at 31st December, 2002.

CONNECTED TRANSACTIONS

1. On 30th January, 2001, the Company through its wholly-owned subsidiary, Happy Access Limited, provided a loan of HK\$120,000,000 to Rosedale Hotel for its working capital. The loan was unsecured, bore interest at prevailing market rate and was repayable within two years from the date of drawdown of the loan. During the period from 1st January, 2002 to the date Rosedale Hotel became an associate of the Group, interest expenses of approximately HK\$4,565,000 were incurred by Rosedale Hotel. Up to the date of this report, total repayment of principal amount of HK\$57,461,000 was made by Rosedale Hotel Group.
2. On 28th February, 2001, Ming Hung (Holdings) Limited, a wholly-owned subsidiary of Rosedale Hotel, entered into tenancy agreement with Cycle Company Limited and Gunnell Properties Limited (the "Landlords") in respect of the lease of premises located at 27/F, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong for a term of two years commencing from 1st March, 2001 to 28th February, 2003 both days inclusive at a monthly payment of HK\$193,558.

As the Landlords are wholly-owned subsidiaries of Paul Y. - ITC, the transaction constitutes a connected transaction of the Company under the Listing Rules.

3. On 17th May, 2001, the Company through its wholly-owned subsidiary, Winning Effort Limited, provided a loan of RMB4,800,000 to Rosedale Hotel for its working capital. The loan was unsecured, bore interest at 6% per annum and was repayable within two years from the date of the drawdown of the loan. Interest expenses of approximately HK\$249,000 were incurred by Rosedale Hotel during the period from 1st January, 2002 to the date Rosedale Hotel became an associate of the Group.
4. On 9th July, 2002, the Company and Paul Y. Project Management International Limited ("Paul Y. Project") entered into an agreement in which the Company agreed to appoint Paul Y. Project as the project manager to provide project management services for the development of The Liqiao Industrial Park at Shunyi District, Beijing, the PRC, within 5 years from the date of the agreement. The remuneration charged by Paul Y. Project is based on the basic salary of Paul Y. Project's team employed on the project plus 100% mark up but should not exceed HK\$9 million. The direct expenses for the provision of project management services shall be reimbursed to Paul Y. Project at cost basis. During the year, the amount of project management fee of approximately HK\$1.9 million was charged by Paul Y. Project.

CONNECTED TRANSACTIONS (continued)

As Paul Y. Project is a wholly-owned subsidiary of Paul Y. – ITC, a substantial shareholder of the Company, the transaction constitutes a connected transaction for the Company under the Listing Rules.

5. On 22nd July, 2002, Rosedale Hotel entered into a conditional sale and purchase agreement with Paul Y. – ITC to acquire from Paul Y. – ITC the entire issued share capital of and the shareholder's loan of approximately HK\$482.5 million, to Rosedale Hotel Group Limited (a company incorporated in British Virgin Islands), which indirectly owns Best Western Rosedale on the Park, for a cash consideration of HK\$250 million. As Paul Y. – ITC is a substantial shareholder of the Company, the transaction constituted a connected transaction under the Listing Rules. The transaction was completed on 2nd December, 2002.
6. During the year, Multi-Million Assets Limited ("Multi-Million") and Allied Glory Investment Limited ("Allied Glory"), wholly owned subsidiaries of Rosedale Hotel, appointed Rosedale Hotel Management International Limited ("Rosedale International") to represent Allied Glory to manage Rosedale Hotel & Suites ■ Guangzhou (the "Hotel") for a term of 10 years from May 2002. During the period from 1st January, 2002 to the date Rosedale Hotel became an associate of the Group the management fees paid by Multi-Million to Rosedale International was HK\$730,187.

As Rosedale International is the subsidiary of Paul Y. – ITC, the transaction constitutes ongoing connected transactions for the Company under the Listing Rules.

The independent non-executive directors have reviewed such ongoing connected transactions and confirm that they were:

- a. entered into in the ordinary course of business of Multi-Million, Allied Glory, Rosedale Hotel and Rosedale International;
- b. entered into on normal commercial terms;
- c. fair and reasonable so far as the shareholders of the Company are concerned; and
- d. the aggregate amount of the management fees charged by Rosedale International during the year did not exceed the amount of 3% of the net tangible assets of the Group for the year ended 31st December, 2002.

CONNECTED TRANSACTIONS (continued)

7. In January 2003, China Enterprises entered into a conditional sales and purchase agreement with a connected person of the Company, Ningxia Yinchuan Rubber Manufacturing, by virtue of its being a substantial shareholder of Yinchuan C.S.I. (Greatwall) Rubber Co., Ltd. ("Yinchuan C.S.I."), to sell its entire 51% interest in Yinchuan C.S.I. for a consideration of RMB35,000,000 (equivalent to approximately HK\$33 million).

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except that the Independent non-executive Directors of the Company are not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet events are set out in note 44 to the financial statements.

AUDITORS

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

On behalf of the Board

Dr. Chan Kwok Keung, Charles

Chairman
Hong Kong

23rd April, 2003