

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries and principal associates are set out in notes 14 and 18 to the financial statements, respectively.

There were no changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 15 to 55.

An interim dividend of HK0.15 cents per ordinary share, was distributed to the Company's shareholders on 15 November 2002. The directors recommend the payment of a final dividend of HK0.25 cents per ordinary share in respect of the year, to shareholders whose names appeared on the register of members on 27 June 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

BONUS ISSUES OF SHARES

A bonus issue of shares of the Company (the "2001 Final Bonus Shares") of HK\$0.01 each, credited as fully paid by way of capitalisation of the Company's contributed surplus account, on the basis of one bonus share for every five existing shares, were allotted to the Company's shareholders on 19 July 2002. The 2001 Final Bonus Shares rank pari passu in all respects with the existing shares of the Company, except that they are not entitled to the proposed final dividend in respect of the year ended 31 December 2001.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results of the Group for the five years ended 31 December 2002 and the consolidated assets and liabilities of the Group for the last five financial years. The information has been extracted from the published audited financial statements of the companies now comprising the Group, after appropriate adjustments and reclassifications.

RESULTS

	Year ended 31 December				
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Turnover	101,890	110,891	113,425	131,307	239,200
Operating profit	36,322	28,559	11,796	45,959	110,673
Share of profits/(losses) of associates	1,696	4,703	(22,226)	(1,612)	(66)
Negative goodwill on acquisition of interest in an associate recognised as income	13,290	5,715	4,752	1,499	—
Profit/(loss) before tax	51,308	38,977	(5,678)	45,846	110,607
Tax	(7,401)	(4,940)	(7,771)	(12,775)	(9,976)
Profit/(loss) before minority interests	43,907	34,037	(13,449)	33,071	100,631
Minority interests	(13,259)	(13,618)	(10,619)	(11,540)	(16,438)
Net profit/(loss) attributable to shareholders	30,648	20,419	(24,068)	21,531	84,193

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Total assets	2,301,608	1,944,340	2,014,814	2,140,416	2,154,006
Total liabilities	(1,126,943)	(972,691)	(974,893)	(976,235)	(890,354)
Minority interests	(311,974)	(318,045)	(336,299)	(358,726)	(363,312)
	862,691	653,604	703,622	805,455	900,340

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 56 to 58.

PROPERTIES HELD FOR SALE

Details of the Group's properties held for sale are set out in note 19 to the financial statements. Further details of the Group's properties held for sale are set out on page 57.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 25 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASES, REDEMPTIONS OR SALES OF THE COMPANY'S LISTED SECURITIES

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company's reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$866,638,000, of which HK\$10,001,000 has been proposed as a final dividend for the year. During the year, the Company's contributed surplus in the amount of HK\$6,667,000 was distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total sales and 30% of the Group's total purchases for the year, respectively.

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

Mr. Lau Chi Yung, Kenneth
Mr. Tsang Pak Chung, Eddy
Mr. Lau Michael Kei Chi
Mr. Cho Po Hong, Jimmy
Mr. Luu Kevin Duc-Chi (resigned on 2 April 2003)

Non-executive director:

Mr. Tong Wui Tung, Ronald

Independent non-executive directors:

Mr. Lee Siu Man, Ervin
Mr. Choy Tak Ho

Subsequent to the year-end on 2 April 2003, Mr. Luu Kevin Duc-Chi resigned as Deputy Managing Director of the Company.

In accordance with the Company's bye-laws, Mr. Tong Wui Tung, Ronald and Mr. Choy Tak Ho will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 6 to 7 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Lau Chi Yung, Kenneth, Mr. Tsang Pak Chung, Eddy and Mr. Lau Michael Kei Chi have entered into a service contract with the Company for a period of three years from 1 June 1998 which will continue thereafter unless and until terminated by either party with three months' prior notice in writing.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements, no director had a significant beneficial interest in any contract of significance to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 December 2002, the interests of the directors and chief executives and their associates in the securities of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Interests in the Company's shares

Name of director	Nature of interest	Number of shares
Mr. Lau Chi Yung, Kenneth	Corporate	<u>2,327,424,000</u>

The above shares are ultimately controlled by Power Resources Holdings Limited as the trustee of the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr. Lau Chi Yung, Kenneth and his sisters and their respective families.

Mr. Lau Chi Yung, Kenneth indirectly controlled more than one-third of the issued share capital of the Company and accordingly he is deemed to have interests in the share capital or registered capital of the subsidiaries and associates of the Group.

In addition to the above, a director has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors, chief executives or their associates had any interest in the share capital of the Company and its associated corporations recorded in the register required to be kept under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34, "Employee benefits", most of the detailed disclosures relating to the Company's share option scheme have been moved to note 25 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, the following shareholders had notified the Company of a direct or indirect interest in 10% or more of the issued share capital of the Company:

	Number of shares held	Percentage of the Company's issued share capital
Power Resources Holdings Limited #	2,327,424,000	58.18%
Lucky Speculator Limited	<u>2,195,424,000</u>	<u>54.88%</u>

Power Resources Holdings Limited was deemed to have a beneficial interest in 2,327,424,000 ordinary shares of the Company by virtue of its indirect interests through Lucky Speculator Limited and a wholly-owned subsidiary which held shares in the Company.

Apart from the foregoing, no person, other than Mr. Lau Chi Yung, Kenneth, who is a director of the Company and whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 31 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the provisions of the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Lau Chi Yung, Kenneth
Chairman

Hong Kong
16 April 2003