

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are primarily property development and investment, and sale of online English learning courses in the Mainland of the People's Republic of China ("Mainland China"). There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 17 to 63.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2002.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 64 of the annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and of the Group, and of the investment properties of the Group during the year are set out in notes 13 and 14, respectively, to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and movements in the Company's share options during the year, together with the reasons therefor, are set out in notes 23 and 24 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company's reserves available for cash distribution and distribution in specie were HK\$214,817,000. In addition, in accordance with the Companies Act 1981 of Bermuda (as amended), the Company's share premium account, in the amount of HK\$220,002,000, may be distributed in the form of fully paid bonus shares.

FINANCIAL RESOURCES AND LIQUIDITY

The Group generally finances its operations with internally generated cash flows and with facilities mainly provided by banks in Mainland China. At the balance sheet date, the Group had cash and bank balances and deposits totalling HK\$43,057,000.

At the balance sheet date, the Group had aggregate bank loans of approximately HK\$51,126,000, of which approximately HK\$10,974,000 is repayable within one year from the balance sheet date.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentage of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (i) The aggregate amount of turnover attributable to the Group's five largest customers represented 41% of the total turnover for the year. The turnover from the Group's largest customer represented 31% of the Group's total turnover for the year.
- (ii) The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

As far as the directors of the Company are aware, neither the directors, their respective associates nor any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Ho Tsam Hung, *Chairman*

Ho Pak Hung, *Deputy Chairman*

Ho Kam Hung, *Managing Director*

Lam Ling Tak (resigned on 1 July 2002)

Independent non-executive directors:

Chan Chiu Kwok, Charles

Zhang Jie (appointed on 30 September 2002)

Young Kwok Sui (appointed on 31 December 2002)

Tsao Kwang Yung, Peter (resigned on 30 September 2002)

Kwok Lam Kwong, Larry (resigned on 30 September 2002)

Subsequent to the balance sheet date, on 1 January 2003, Mr. Chan Chiu Kwok, Charles resigned as a director of the Company.

In accordance with the Company's bye-laws, Ho Pak Hung will retire by rotation, and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws, Zhang Jie and Young Kwok Sui will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws, the terms of appointment of the independent non-executive directors will expire when they are required to retire by rotation.

DIRECTORS' SERVICE CONTRACTS

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 30 to the financial statements, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted as at the balance sheet date or at any time during the year and subsequent thereto.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

CONNECTED TRANSACTIONS

Details of connected transactions of the Group are set out in note 30 to the financial statements.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At the balance sheet date, the interests of the directors in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

The Company

Name of director	Number of shares held and nature of interest Corporate
Ho Tsam Hung	270,000,000 (Note 1)
Ho Pak Hung	270,000,000 (Note 2)
Ho Kam Hung	270,000,000 (Note 3)

Notes:

- (1) 270,000,000 shares were beneficially held by Ho Tsam Hung through Morgan Estate Assets Limited.
- (2) 270,000,000 shares were beneficially held by Ho Pak Hung through On Tai Profits Limited.
- (3) 270,000,000 shares were beneficially held by Ho Kam Hung through Morcambe Corporation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

Associated corporations

At the balance sheet date, the following directors of the Company had interests in the non-voting deferred shares in certain of the subsidiaries of the Company:

(a) *Interests in the non-voting deferred shares of Smart Hero (Holdings) Limited*

Name of director	Number of shares held and nature of interest	
	Personal	
Ho Tsam Hung	91	
Ho Pak Hung	91	
Ho Kam Hung	91	

(b) *Interests in the non-voting deferred shares of China Land Realty Investment Limited*

Name of director	Number of shares held and nature of interest	
	Personal	
Ho Tsam Hung	91	
Ho Pak Hung	91	
Ho Kam Hung	91	

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 15 to the financial statements.

Save as disclosed above, as at the balance sheet date, none of the directors or their respective associates had, or were deemed to have, any interest in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which required notification, pursuant to Section 28 of the SDI Ordinance (including interests which any such director is deemed or taken to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to Section 29 of the SDI Ordinance, to be recorded in the register maintained by the Company, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in note 24 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate 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, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

Due to the adoption of Hong Kong Statement of Standard Accounting Practice 34 "Employee benefits" during the year, the disclosures relating the Company's share option scheme have been moved to note 24 to the financial statements.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Pursuant to Rule 8.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), details of the interests held by certain directors in a business, which competes or is likely to compete with the Group, are disclosed as follows:

Certain directors, through a private company, hold interests in a development site located at Jie Fang Nan Road, Yuexiu District, Guangzhou with an intention to develop the site into residential and commercial properties. The site is currently erected with a temporary distribution centre for shoes and related products. The distribution centre is currently managed by a separate management team which is independent from the management of the Group. Given the different location and market segment of the distribution centre, which is situated at Yuexiu District, and of the Group's shopping arcade, which is situated in Chongqing, the directors consider that competition between the two properties is remote and unlikely.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position	Number of years of service with the Group	Business experience
Ho Tsam Hung	50	Chairman	12	Over 12 years' experience in property development and investment in Mainland China
Ho Pak Hung	52	Deputy Chairman	12	Over 12 years' experience in property development and investment in Mainland China
Ho Kam Hung	48	Managing Director	12	Over 12 years' experience in property development and investment in Mainland China
Young Kwok Sui	45	Independent Non-Executive Director	Newly-appointed on 31 December 2002	Over 15 years' experience in accountancy and management consultancy services
Zhang Jie	41	Independent Non-Executive Director	1/4	Over 20 years' experience in commercial management in Mainland China

REPORT OF THE DIRECTORS

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Senior management

Name	Age	Position	Number of years of service with the Group	Business experience
Yam Ka Yin, Rebecca	27	Group Financial Controller and Company Secretary	2	Over 6 years' experience in accounting and corporate finance
Chun Wai Yin, Alex	37	Accounting Manager	11	Over 15 years' experience in accounting and treasury management

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 21 full-time staff in Hong Kong and Mainland China as at 31 December 2002. Employees are remunerated according to the nature of their job and market trends, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Mainland China, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, the Mandatory Provident Fund scheme and employees' share option scheme.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, as far as the directors were aware, the register of substantial shareholders maintained by the Company, pursuant to Section 16(1) of the SDI Ordinance, showed that the following shareholder had an interest of more than 10% of the nominal value of the Company's issued share capital.

Name	Number of shares held	Percentage of the Company's issued share capital
High Rank Enterprises Limited	1,140,000,000	38.25

Save as disclosed above, the Company had not been notified of any other interest representing 10% or more in the issued share capital of the Company at the balance sheet date.

REPORT OF THE DIRECTORS

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and supervising the Company's financial reporting process and internal controls. The audit committee comprises the two independent 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

Ho Kam Hung

Managing Director

Hong Kong

28 April 2003