

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the Company's principal subsidiaries are set out in note 50 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 49 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 22 of the financial statements.

During the year, the Company paid first special dividend, and second special dividend of HK\$2,500,000 and HK\$1,108,000 respectively. Details of dividends paid are set out in note 14 to the financial statement.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2002.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 16 and 17 to the financial statements respectively.

SHARE CAPITAL

There were no changes in the Company's share capital during the year.

Details of the Company's warrants are set out in note 33 to the financial statements.

Directors' Report

DIRECTORS

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

Executive Directors:

Mr. Ng Hung Sang, Robert (*Chairman*)

Mr. Richard Howard Gorges

Ms. Cheung Choi Ngor, Christina

Mr. Yuen Kam Tim, Francis

Non-executive Director:

Mr. Tan Boon Seng

Independent non-executive Directors:

Mr. David Michael Norman

Mr. David John Blackett

In accordance with Article 116 of the Company's Articles of Association, Messrs. Ng Hung Sang, Robert and Richard Howard Gorges will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

In addition, all non-executive directors (including independent non-executive directors) have no fixed terms of office and 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 Articles of Association.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not being determinable by the Group within one year without payment of compensation other than statutory compensation.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 31 December 2002, the interests of the directors of the Company and their associates in the share capital and warrants of the Company and its associated corporations (as defined in 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 as otherwise notified to the Company and to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were as follows:

	Number of ordinary shares		Number of warrants	
	Personal interests	Corporate interests	Personal interests	Corporate interests
(i) The Company				
Mr. Ng Hung Sang, Robert ("Mr. Ng") (Note a)	71,587,200	1,272,529,612	14,317,440 (Note b)	254,505,922 (Note b)
Ms. Cheung Choi Ngor, Christina ("Ms. Cheung") (Note a)	—	487,949,760	—	97,589,952 (Note b)
Mr. Richard Howard Gorges ("Mr. Gorges") (Note a)	—	487,949,760	—	97,589,952 (Note b)
(ii) South China Brokerage Company Limited ("SCB") (Note c)				
Mr. Ng	7,378,000	3,626,452,500 (Note d)	1,475,600 (Note e)	725,290,500 (Note d and e)
Mr. Gorges	16,174,000	—	3,234,800 (Note e)	—
Mr. Yuen Kam Tim, Francis	7,175,000	—	—	—
(iii) South China Industries Limited ("SCI") (Note f)	—	396,389,357 (Note g)	—	—
(iv) The Express News Limited ("Express News") (Note h)				
Mr. Ng (Note i)	—	30	—	—

Notes:

- Mr. Ng, Ms. Cheung and Mr. Gorges, through companies wholly-owned and controlled by them, have interests in 487,949,760 shares and 97,589,952 warrants in the Company. Mr. Ng personally owns 71,587,200 and 14,317,440 warrants and through companies wholly-owned and controlled by him, beneficially owns 784,579,852 shares and 156,915,970 warrants in the Company.
- The Company's warrants will expire on 23 July 2003.
- SCB is a 74.59% owned subsidiary of the Company.
- Mr. Ng is deemed to be interested in 3,626,452,500 shares and 725,290,500 warrants of SCB beneficially owned by the Company by virtue of his aggregate interests in the Company as set out in Note (a) above.
- The SCB warrants will expire on 21 June 2003.
- SCI is a 74.74% owned subsidiary of the Company.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND WARRANTS (Continued)

- (g) Mr. Ng is deemed to be interested in 396,389,357 shares of SCI beneficially owned by the Company by virtue of his aggregate interests in the Company as set out in Note (a) above.
- (h) Express News is a 70% owned subsidiary of the Company.
- (i) Mr. Ng and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.

Save as disclosed above, none of the directors or chief executive or their respective associates had any interests in any securities of the Company or its associated corporations as defined in the SDI Ordinance as at 31 December 2002.

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

The directors and employees of the Company and its subsidiaries are entitled to participate in the share options schemes of the Company, its holding company and fellow subsidiary. Particulars of these schemes are set out in note 46 to the financial statements. The following tables summarise the movements of the options granted under these schemes, so far as the directors of the Company are concerned:

(i) Share option scheme adopted by the Company on 29 July 1992

Director	Month of grant	Exercisable period	Exercise price HK\$	Number of underlying shares comprised in the Company's share options		
				Outstanding at 1.1.2002	Lapsed during the year	Outstanding at 31.12.2002
Mr. Ng	July 1992	29.7.1993 to 28.7.2002	1.36	13,796,000	(13,796,000)	—
	July 1995	22.7.1996 to 28.7.2002	0.88	3,000,000	(3,000,000)	—
Ms. Cheung	July 1992	29.7.1993 to 28.7.2002	1.36	13,792,000	(13,792,000)	—
	July 1995	22.7.1996 to 28.7.2002	0.88	3,000,000	(3,000,000)	—
Mr. Gorges	July 1992	29.7.1993 to 28.7.2002	1.36	13,792,000	(13,792,000)	—
	July 1995	22.7.1996 to 28.7.2002	0.88	3,000,000	(3,000,000)	—
				50,380,000	(50,380,000)	—

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DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES *(Continued)*

(ii) Share option scheme adopted by the Company on 31 May 2002

No share options were granted or exercised under this scheme since its adoption.

(iii) Share option scheme adopted by SCI on 10 August 1992

Director	Month of grant	Exercisable period	Exercise price HK\$	Number of underlying shares comprised in SCI's share options		
				Outstanding at 1.1.2002	Lapsed during the year	Outstanding at 31.12.2002
Mr. Ng	December 1993	23.12.1994 to 9.8.2002	1.18	13,000,000	(13,000,000)	—
Ms. Cheung	December 1993	23.12.1994 to 9.8.2002	1.18	13,000,000	(13,000,000)	—
Mr. Gorges	December 1993	23.12.1994 to 9.8.2002	1.18	13,000,000	(13,000,000)	—
				39,000,000	(39,000,000)	—

(iv) Share option scheme adopted by SCI on 31 May 2002

No share options were granted or exercised under this scheme since its adoption.

(v) Share option scheme adopted by SCB on 12 July 1993

Director	Month of grant	Exercisable period	Exercise price HK\$	Number of underlying shares comprised in SCB's share options		
				Outstanding at 1.1.2002	Lapsed during the year	Outstanding at 31.12.2002
Mr. Ng	August 1993	15.8.1994 to 11.7.2003	0.180	100,000,000	—	100,000,000
Ms. Cheung	August 1993	15.8.1994 to 11.7.2003	0.180	100,000,000	—	100,000,000
Mr. Gorges	August 1993	15.8.1994 to 11.7.2003	0.180	50,000,000	—	50,000,000
				250,000,000	—	250,000,000

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DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES *(Continued)*

(vi) *Share option scheme adopted by SCB on 31 May 2002*

No share options were granted or exercised under this scheme since its adoption.

Save as disclosed above, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and companies in which a director of the Company, Mr. Ng, has beneficial interests are set out in note 41 to the financial statements.

Save as disclosed above, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries 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 year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, the following shareholders had an interest of 10% or more in the share capital of the Company:

Name of shareholders	Number of ordinary shares held	Notes	% holding
Earntrade Investments Limited ("Earntrade")	487,949,760	(a)	26.76%
Bannock Investment Limited ("Bannock")	237,303,360	(a)	13.01%
Mr. Ng	1,344,116,812	(b)	73.71%
Parkfield Holdings Limited ("Parkfield")	371,864,000	(b)	20.39%
Fung Shing Group Limited ("Fung Shing")	396,050,252	(b)	21.72%

Notes:

- (a) Earntrade is the holding company of Bannock. The 487,949,760 shares referred to above include the 237,303,360 shares held by Bannock, Mr. Ng, Mr. Gorges and Ms. Cheung have beneficial interests in Earntrade.
- (b) The 1,344,116,812 shares referred to above include 371,864,000 shares held by Parkfield, 396,050,252 shares held by Fung Shing and 16,665,600 shares held by Ronastar Investments Limited ("Ronastar"). Mr. Ng has beneficial interests in Parkfield, Fung Shing and Ronastar.

Other than as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2002.

Directors' Report

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng, Chairman of the Company, is also Chairman of Jessica Publications Limited ("JPL") and Co-Chairman of Capital Publications Limited ("CPL"). Mr. Ng, personally and through Parkfield, Fung Shing and Ronastar, has interest in JPL and CPL. Mr. Ng together with Ms. Cheung and Mr. Gorges, directors of the Company, have beneficial interests in Earntrade, which directly and indirectly through Bannock holds shares in JPL and CPL. Ms. Cheung, who was an ex-director of Capital Publishing Limited, a wholly owned subsidiary of CPL and Mr. Gorges, are also directors of various members of the Group. As both JPL and CPL are principally engaged in publication business, Mr. Ng, Ms. Cheung and Mr. Gorges are regarded to be interested in such competing businesses of the Group.

Save as disclosed above, none of the director of the Company is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

CONNECTED TRANSACTION

A conditional underwriting and placing agreement dated 10 July 2002 (the "Underwriting Agreement") was entered into between South China Securities Limited ("SCS"), an indirect subsidiary of the Company and a wholly owned subsidiary of SCB, and CPL, an associate of Mr. Ng, the Chairman and substantial shareholder of the Company and SCB relating to the placing of 50,648,000 new shares of HK\$0.01 each in CPL (the "Placing Shares"), a company that was to be listed on the Growth Enterprise Market on the Stock Exchange, for subscription at the price of HK\$0.30 per share. SCS received a normal market underwriting commission of 2.5% on the issue of all the Placing Shares, of approximately HK\$380,000. In addition, under the Underwriting Agreement, irrevocable commitments from investors were received by SCB in connection with the underwriting of the Placing Shares which had resulted in the reduction of financial exposure of SCB. The placement of the Placing Shares was completed on 16 July 2002.

The independent non-executive directors of the Company have reviewed and confirmed that in their opinion, the terms of the transaction were (a) entered into in the ordinary and usual course of business of the Group; (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 consideration received by SCS did not exceed 3% of the audited consolidated net tangible assets of the Group at 31 December 2001.

ARRANGEMENTS TO PURCHASE, REDEEM OR SELL 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 ended 31 December 2002.

Directors' Report

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2002, the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases while the five largest customers of the Group accounted for approximately 50% of the Group's total turnover. In addition, the largest customer of the Group accounted for approximately 15% of the Group's turnover. None of the directors, their associates, or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or suppliers.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2002 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

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 two members, Mr. David Michael Norman and Mr. David John Blackett, who are independent non-executive directors of the Company.

Directors' Report

POST BALANCE SHEET EVENT

Details of significant events occurring after the balance sheet date are set out in note 48 to the financial statements.

AUDITORS

During the year, Messrs. Arthur Andersen & Co., who acted as auditors of the Company for the past three years, resigned and Messrs. PricewaterhouseCoopers were appointed as auditors of the Company. On 3 December 2002, Messrs. PricewaterhouseCoopers resigned as auditors of the Company and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company for the ensuing year.

On behalf of the Board

Ng Hung Sang, Robert

Chairman

Hong Kong Special Administrative Region of
the People's Republic of China

25 April 2003