

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 15 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 12 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	25%	
Five largest customers in aggregate	43%	
The largest supplier		10%
Five largest suppliers in aggregate		32%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The Group's results for the year ended 31 December 2002 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 23 to 67.

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25 on the financial statements.

FIXED ASSETS

Details of movements in fixed assets of the Group during the year are set out in note 13 on the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in notes 15 and 16 on the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year and the use of the proceeds from shares issues are set out in note 24 on the financial statements. Shares were issued during the year to finance the repayment of the outstanding 3% Convertible Notes.

SHARE OPTIONS, CONVERTIBLE NOTES AND WARRANTS

Details of share options, convertible notes and warrants in issued and their subsequent conversion are set out in notes 24 and 21 respectively on the financial statements.

DIRECTORS

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

Executive directors

Mr Leung Chung Shan
Mr Chiu Wing Keung
Mr Tam Lup Wai, Franky

Independent non-executive directors

Mr Chow Siu Ngor
Mr Ting Leung Huel, Stephen

In accordance with clauses 87(1) and 87(2) of the Company's Bye-laws, Mr Chow Siu Ngor retires from the board by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

Independent non-executive directors are not appointed for a specific term because all of the directors, including non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting, in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

Mr Leung Chung Shan and Mr Chiu Wing Keung have individually entered into service contracts with the Company for a term of 3 years commencing from 1 February 2000 and 5 November 2001 respectively. The service contracts of the executive directors are subject to termination by either party giving not less than 6 months' written notice or otherwise shall continue thereafter from year to year.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTEREST IN SHARES

The directors of the Company who held office at 31 December 2002 had the following interests in the issued share capital of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance) at that date as recorded in the register of directors' share interests:

Name of director	Nature of interest	Number of shares
Leung Chung Shan	Corporate <i>(Note)</i>	924,000,000
	Personal	58,212,000

Note: The 924,000,000 shares are held by Tees Corporation, a company incorporated in the British Virgin Islands and is wholly-owned by Mr Leung Chung Shan.

At no time during the year was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

At 31 December 2002, the employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2002 is HK\$0.188) granted for HK\$1 consideration under the share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

Grantees	Date of grant	Exercise price per share (Adjusted) <i>(note i)</i>	Options				
			Outstanding at 1 January 2002	Cancelled during the year	Acquired on exercise of options during the year	Adjusted during the year <i>(note i)</i>	Outstanding at 31 December 2002
Employees	10 July 2000	HK\$0.392	24,300,000	(180,000)	–	12,060,000	36,180,000

Notes:

(i) The adjustments were made after the effects of the rights issue during the year.

SHARE OPTION SCHEME (continued)

The Company has a share option scheme, which was adopted on 2 June 1997 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The purpose of the share option scheme is to encourage the officers and staff to participate in the ownership of the Company in order to provide additional incentives to them. The share option scheme shall be valid and effective for a period of ten years ending 1 June 2007. However, with effect from 1 September 2001, the Company no longer can grant any further options under the Scheme unless the Company changes the terms of the Scheme to comply with the requirements of Chapter 17 of the Listing Rules.

For options granted before 1 September 2001, the exercise price of options was determined by the board of directors and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices of the shares on the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable up to 1 June 2007. However, between 28 June 2001 and 23 August 2001, most of the holders of the options undertake with the Company that the exercise of the options shall be restricted in the following manner:

Period	Number of Shares
10 Jul 2001 to 31 Dec 2001 (both dates inclusive)	Not more than 10% of the outstanding options
1 Jan 2002 to 28 Feb 2002 (both dates inclusive)	Not more than 10% of the outstanding options
1 Mar 2002 to 30 Jun 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Jul 2002 to 30 Sept 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Oct 2002 to 31 Dec 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Jan 2003 to 31 Mar 2003 (both dates inclusive)	Not more than 15% of the outstanding options
1 Apr 2003 to 31 Jul 2003 (both dates inclusive)	Not more than 20% of the outstanding options

In view that the Company no longer can issue options under the existing Scheme, the total number of shares available for issue under the share option scheme at 31 December 2002 will be 36,180,000 shares, which represents the outstanding options that have been granted but not yet lapsed or exercised at 31 December 2002, and it is 1.87% of the issued share capital of the Company as at the date of the annual report.

In respect of the maximum entitlement of each participant under the scheme, no limitation in relation to the number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period of the Company's ordinary shares in issue.

DIRECTORS' REMUNERATIONS

Particulars of the Directors' remunerations disclosed pursuant to section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 6 on the financial statements.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 31 December 2002 amounting to 10% or more of the ordinary shares in issue:

	Ordinary shares held	Percentage of total issued shares
Tees Corporation <i>(Note 1)</i>	924,000,000	52.39%
Leung Chung Shan <i>(Note 2)</i>	982,212,000	55.69%
Chan How Chung, Victor	180,390,000	10.23%

Notes:

1. Tees Corporation is a company incorporated in the British Virgin Islands and is wholly-owned by Mr Leung Chung Shan.
2. By virtue of Tees Corporation's interests in 924,000,000 shares, Mr. Leung Chung Shan is deemed to be interested in 982,212,000 shares.

Save as disclosed above, the Company is not aware of any other registered shareholders who holds 10% or more of the issued share capital of the Company at 31 December 2002.

DIRECTORS' INTERESTS IN CONTRACT

Apart from the transactions set out in note 28 on the financial statements, in which Mr Leung Chung Shan through its shareholdings in Tees Corporation, the ultimate holding company of the Group, is interested, no other contracts of significance to which the Company, its holding company or any of their subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had no reserves available for distribution to shareholders of the Company, as computed in accordance with the Companies Act 1981 of Bermuda. However, the Company's share premium account, with a balance of HK\$1,361,270,600 at 31 December 2002, may be applied in paying up unissued shares of the Company to be issued to shareholders of the Company as fully paid bonus shares.

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.

CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in note 28 on the financial statements.

DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES

Details of the relevant advance to an entity discloseable under practice note 19 to the Listing Rules are set out in note 17 on the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Particulars of loans from banks and other financial institutions of the Company and the Group as at 31 December 2002 are set out in note 20 on the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 68 of the annual report.

PROPERTIES

Particulars of the major properties and property interests of the Group are shown in note 13 on the financial statements.

PENSION SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer makes contributions to the scheme at 5%-10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000 except for certain senior staff. Contributions to the MPF scheme are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the employer contributions being vested fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("plans") organised by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the plans. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

Details of the pension scheme contributions of the employees, net of forfeited contributions, which have been dealt with in the profit and loss account of the Group for the year ended 31 December 2002, are set out in note 4 on the financial statements. At 31 December 2002, forfeited contributions of approximately HK\$25,000 (2001: HK\$43,000) were available to offset future employer contributions to the scheme.

AUDIT COMMITTEE

Pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), an Audit Committee, comprising two independent non-executive directors, namely Messrs Chow Siu Ngor and Ting Leung Huel, Stephen, was established on 28 December 1999. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice throughout the period covered by the annual report except that independent non-executive directors are not appointed for a special term as recommended under Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, independent non-executive directors of the Company will retire by rotation, and their appointment will be reviewed when they are due for re-election. In the opinion of the Company, this meets the same objective as the Code of Best Practice.

AUDITORS

KPMG acted as the Company's auditors for year ending 31 December 2000 upon the special resolution for the removal of Ernst & Young passed at the special general meeting of the Company held on 30 March 2001.

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

Chiu Wing Keung

Deputy Chairman and Executive Director

Hong Kong, 24 April 2003