

## Directors' Report

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

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the Company's principal subsidiaries and associates are set out in notes 31 and 16 to the financial statements respectively.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 12.

The directors do not recommend the payment of a dividend in respect of the year.

### INVESTMENT PROPERTIES

All the investment properties of the Group were revalued at 31st December, 2002. The resulting net deficit arising on revaluation amounted to HK\$56.9 million, the Group's share of which has been charged to the investment property revaluation reserve.

Details of this and other movements during the year in the investment properties of the Group are shown in note 12 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

The Group's hotel property and furnished suites were revalued at 31st December, 2002. The net deficit arising on revaluation of these properties amounted to HK\$11 million, the Group's share of which has been charged directly against the other property revaluation reserve.

During the year, construction of the furnished suites in Shanghai with a carrying value of HK\$91 million was completed.

Details of these and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

### MAJOR PROPERTIES

Details of the major properties of the Group at 31st December, 2002 are set out on pages 46 and 47 of the Annual Report.

### SHARE CAPITAL

Details of the share capital of the Company are set out in note 21 to the financial statements. There were no movements in the share capital of the Company during the year.

### RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 22 to the financial statements.

### BORROWINGS

Bank loans and other borrowings repayable within one year are classified as current liabilities in the financial statements.

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

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

### DIRECTORS

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

#### Executive directors

Mr. William Cheng Kai Man

Mr. Jim Wong Tin Yue

Mr. Albert Hui Wing Ho

#### Non-executive directors

Ms. Mabel Lui Fung Mei Yee\*

Mr. Vincent Kwok Chi Sun\*

Mr. David Cheng Kai Ho

\* *independent non-executive directors*

In accordance with the provisions of the Company's Articles of Association, Mr. Albert Hui Wing Ho and Mr. Vincent Kwok Chi Sun shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

## Directors' Report (Continued)

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### DIRECTORS' INTERESTS IN SHARES, WARRANTS AND OPTIONS

#### Shares and Warrants

At 31st December, 2002, the beneficial interests of the directors and their associates in the issued ordinary shares and warrants of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("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 The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### Corporate interests

Shares of HK\$0.50 each in the Company	
– William Cheng Kai Man	350,628,682 shares (Note 1)
Shares of HK\$0.01 each in	
Magnificent Estates Limited ("Magnificent")	
– William Cheng Kai Man	3,154,032,533 shares (Note 1)
Warrants of Magnificent	
– William Cheng Kai Man	629,361,166 units (Note 2)

#### Notes:

- At 31st December, 2002, Trillion Resources Limited, a company controlled by Mr. William Cheng Kai Man, and Shun Ho Group Limited, a subsidiary of Trillion Resources Limited beneficially held 153,017,525 and 988,600 ordinary shares in Shun Ho Resources Holdings Limited ("Shun Ho Resources") respectively, representing approximately 50.3% and 0.3% of its issued share capital respectively. Shun Ho Resources and its subsidiaries in turn beneficially held 266,889,172 ordinary shares in the Company, representing approximately 49.7% of the issued share capital of the Company. As at that date, the Company and its subsidiaries beneficially held 3,154,032,533 ordinary shares in Magnificent, representing approximately 65.2% of its issued share capital. Therefore, Mr. William Cheng Kai Man was deemed to have interests in the shares of the Company, its subsidiaries and associates.

At 31st December, 2002, a subsidiary of Magnificent beneficially held a total of 62,602,700 and 83,739,510 ordinary shares in Shun Ho Resources and the Company respectively, representing approximately 20.6% and 15.6% interests in their issued share capital respectively.

- The Company together with its subsidiaries beneficially held 629,361,166 units of warrants of Magnificent, representing approximately 97.6% of the total units of warrants outstanding at 31st December, 2002.

#### Share Options

Particulars of the options to subscribe for shares in the Company and its subsidiary are set out in note 21 to the financial statements.

The following table discloses the outstanding share options at the beginning and end of the year:

Name	Number of shares issuable under options	Date of grant	Exercisable		Subscription price per share HK\$
			From	To	

#### The Company

William Cheng Kai Man	5,374,691*	19/10/1993	20/10/1993	19/10/2003	1.11
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#### Magnificent

William Cheng Kai Man	43,799,524*	29/6/1994	30/6/1994	29/6/2004	0.20
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\* The share options were cancelled on 25th March, 2003.

No share option was exercised, cancelled or lapsed during the year.

Other than as disclosed above and save for shares in subsidiaries held by a director in trust for their immediate holding companies, none of the directors or their associate had any interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or their associates or their spouses or children under the age of 18, had any right to subscribe for the equity or debt securities of the Company, or had exercised any such right during the year.

## Directors' Report (Continued)

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### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than 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 arrangements 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.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

During the year, the Group had transactions with certain related parties, details of which are set out in note 29 to the financial statements.

In addition, the Company and its subsidiaries had the following transactions with Magnificent group of companies:

- (i) A property owned by a subsidiary of the Company was let to Magnificent. The net rental received from Magnificent for the year, which was mutually agreed, amounted to HK\$1,040,000.
- (ii) During the year, the Company made unsecured advances to Magnificent and its subsidiary which carry interest chargeable at HIBOR plus 1% per annum and are repayable on demand. At 31st December, 2002, such advances amounted to HK\$71,093,360 remained outstanding. Interest receivable by the Company on such advances amounted to a total of HK\$2,370,783 in respect of the year.  
  
At 31st December, 2002 the Group had trade balance due to Magnificent amounted to HK\$140,313 which was unsecured, interest free and repayable on demand.
- (iii) In the prior year, the Company and its subsidiaries subscribed for approximately 1,573,403,000 units of 5% mandatory convertible bonds and 629,361,000 units of warrants of Magnificent, of which 130,000,000 units of the convertible bonds were converted into shares of Magnificent up to 31st December, 2001. During the year, all the remaining outstanding convertible bonds held by the Group were converted into shares of Magnificent. Interest receivable by the Group on the convertible bonds amounted to HK\$3,760,757 in respect of the year. Details

of the convertible bonds and warrants are set out in notes 23 and 21 respectively.

- (iv) During the year, expenses amounted to HK\$1,399,702 were payable by the Company to Magnificent for administrative services provided by Magnificent on a cost reimbursement basis.
- (v) During the year, income from provision of portal site services of HK\$288,000 was charged by a subsidiary of the Company to Magnificent group of companies based on terms mutually agreed by the parties concerned.

Save as disclosed therein:

- (i) no contracts of significance subsisted at any time during the year to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Amongst the directors who held office during the year, Mr. William Cheng Kai Man was interested, directly or indirectly, in the share capital of Shun Ho Resources, Magnificent and the Company. Mr. Jim Wong Tin Yue and Mr. Albert Hui Wing Ho were directly interested in the share capital of Shun Ho Resources.

In the opinion of the directors not having an interest in those transactions, those transactions were carried out in the ordinary course of the Group's business on normal commercial terms.

### MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries were entered into during the year or subsisted at the end of the year.

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchases and sales attributable to the five largest suppliers and customers of the Group accounted for less than 30% in aggregate of the Group's total purchases and sales respectively.

## Directors' Report (Continued)

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### SUBSTANTIAL SHAREHOLDERS

At 31st 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	Number of shares
Mercury Fast Limited	83,739,510
Omnico Company Inc. (Note 1)	350,628,682
Shun Ho Resources Holdings Limited (Note 2)	350,628,682
Trillion Resources Limited (Note 2)	350,628,682
Madam Liza Lee Pui Ling (Note 3)	350,628,682

*Notes:*

1. Omnico Company Inc. beneficially held 266,889,172 shares in the Company and was taken to be interested in 83,739,510 shares in the Company held by its associate, Mercury Fast Limited, in accordance with Section 8(2) of the SDI Ordinance.
2. Shun Ho Resources Holdings Limited and Trillion Resources Limited were taken to be interested in 350,628,682 shares in the Company by virtue of their direct and indirect interests in Omnico Company Inc. in accordance with Section 8(2) of the SDI Ordinance.
3. Madam Liza Lee Pui Ling, the spouse of Mr. William Cheng Kai Man who is a director of the Company, was taken to be interested in 350,628,682 shares in the Company in accordance with Section 8(1) of the SDI Ordinance.

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

### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2002 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### AUDITORS

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

On behalf of the Board

**William CHENG Kai Man**  
*Chairman of the Meeting*

Hong Kong, 15th April, 2003