



REPORT OF THE DIRECTORS

The directors 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. Details of the principal activities of its subsidiaries are set out in note 17 to the financial statements. 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 the Group at that date are set out in the financial statements on pages 23 to 100.

No interim dividend was paid during the year. The directors do not recommend the payment of a final 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 101. This summary does not form part of the audited financial statements.

Fixed assets and investment properties

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the properties held by the Group are set out on pages 102 to 103.

Properties under development

Details of movements in properties under development of the Group during the year are set out in note 15 to the financial statements.

Share capital, share options and warrants

Details of movements in the Company's share capital, share options and warrants during the year, together with reasons therefor, are set out in notes 36 and 37 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the financial statements and in the consolidated statement of changes in equity, respectively.

Directors

The directors of the Company during the year were:

Executive directors

Kong Look Sen (*Chairman and Managing Director*)

Kong Li Jer

Kong Li Szu

Independent non-executive directors

Ku Suen Fai

Fai Cheong Hau

In accordance with Articles 1(G) and 81 to 84 of the Company's Articles of Association, Mr. Kong Li Szu will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Biographical details of directors and senior management

Biographical details of the directors and the senior management of the Company are set out on pages 19 to 20 of the annual report.

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.



REPORT OF THE DIRECTORS

Directors' interests in securities

As at the balance sheet date, the interests of the directors and their associates in the securities of the Company or its associated corporations are within the meaning of the Securities (Disclosure of Interests) Ordinance (The Law of Hong Kong Chapter 396) ("SDI Ordinance") which have been notified to the Company or its associated corporations and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Company or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein were as follows:

(a) Ordinary shares of the Company

Name of directors	Notes	Number of shares held and nature of interest	
		Personal	Corporate
Kong Look Sen	(1)	22,760,695	1,461,175,836
Kong Li Jer	(1)	22,760,695	1,461,175,836
Kong Li Szu	(2)	22,760,695	1,057,800,042

Directors' interests in securities (Continued)

(b) Ordinary shares of Grandy Applied Environmental Technology Corporation

Name of director	Note	Number of shares held and nature of interest
		Corporate
Kong Li Szu	(3)	119,229,995

Notes:

- (1) The corporate interests in 1,461,175,836 shares comprise of 1,057,800,042 shares being held by Kong Fa Holding Limited ("Kong Fa") and 403,375,794 shares held by Kong Sun Enterprise Sdn. Bhd. ("KSE") respectively. Messrs. Kong Look Sen and Kong Li Jer are the directors and shareholders of Kong Fa and KSE.
- (2) The corporate interest in 1,057,800,042 shares is held by Kong Fa, of which Mr. Kong Li Szu is a director and shareholder.
- (3) These shares are held by Count Wealth Investments Limited, a wholly-owned subsidiary of the Company, of which Mr. Kong Li Szu is a director.

The interests of the directors in the share options of the Company are separately disclosed in note 37 to the financial statements.

Save as disclosed above, and other than certain nominee interests in the subsidiaries held in trust for the Company, none of the directors or their associates had any beneficial interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.



REPORT OF THE DIRECTORS

Directors' rights to acquire shares or debentures

Apart from as disclosed in the Share Option Scheme disclosures in note 37 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 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, its holding companies, or any of its subsidiaries or fellow 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 of Statement of Standard Accounting Practice No. 34 "Employee Benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 37 to the financial statements.

Substantial shareholders

At 31 December 2002, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following shareholders were interested in 10% or more of the issued share capital of the Company:

Name	Number of ordinary shares held	Percentage of issued share capital
Kong Fa	1,057,800,042	41.30%
KSE	403,375,794	15.75%

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' Interests In Securities" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Directors' interests in contracts

Save as disclosed in note 43 to the financial statements, no director had a beneficial interest in any contract of significance to the business of the Company to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Connected transactions

During the year, the Group had certain transactions, as further detailed in note 43 to the financial statements, which constituted connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In the opinion of the directors, the connected transactions were conducted in the normal course of business and the Company has complied with the relevant requirements under Chapter 14 of the Listing Rules.

Purchase, redemption or sale of listed securities

During the year, the Company through Pacpo Investments Limited, a wholly-owned subsidiary, repurchased, through the Stock Exchange, and cancelled an aggregate of 200,000 ordinary shares of HK\$0.10 each in the share capital of the Company at the prices ranging from HK\$0.169 to HK\$0.167 per share. The purchase consideration was HK\$33,791.04.

The difference between the cash consideration and the nominal value of share repurchased of HK\$13,791.04 has been charged to the Company's share premium account.

In addition, HK\$20,000, representing the nominal value of the cancelled shares, has been transferred from retained profits to the capital redemption reserve. Further details are set out in note 36 to the financial statements.

The repurchases of the Company's shares during the year were effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefitting shareholders as a whole by enhancing the net asset value per share of the Group.



REPORT OF THE DIRECTORS

Purchase, redemption or sale of listed securities (Continued)

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year.

Distributable reserves

At 31 December 2002, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of HK\$329,049,000, may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$12,000.

Liquidity and financial resources

As at 31 December 2002, the Group had total assets of HK\$838,344,000 which were financed by current liabilities of HK\$185,002,000, finance lease payables of HK\$190,000, long term bank loans and other borrowings of HK\$36,515,000, deferred tax of HK\$497,000, minority interests of HK\$77,414,000 and shareholders' equity of HK\$538,726,000. The Group's working capital ratio at the balance sheet date was approximately 0.76:1.

As at 31 December 2002, the Group had aggregate composite banking facilities from banks of HK\$96,000,000, of which HK\$83,000,000 had been utilised, and cash and bank balances (not restricted as to use) of approximately HK\$2,000,000.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 86% of the total sales for the year and sales to the largest customer included therein amounted to 43%. Purchases from the Group's five largest suppliers accounted for 93% of the total purchases for the year and purchases from the largest supplier included therein amounted to 87%.

None of the directors of the Company or any of their associates or 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 customers or five largest suppliers.

Employees and employment policies

At 31 December 2002, the Group employed 62 staff. The Group employs and remunerates its staff based on their performance and experience. In addition to basic salary payments, staff members are covered by the Group's health and medical scheme, discretionary bonus and mandatory provident fund scheme.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 44 to the financial statements.

Practice Note 19 of the Listing Rules

In accordance with the disclosure requirements of paragraphs 3.6 and 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of one of the Company's bank loan facilities, which the controlling shareholder of the Company has pledged its shares of the Company to secure the bank loan facility of the Company and contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan facility letter dated 25 October 2002 between the Company and Industrial and Commercial International Capital Limited ("ICIC"), relating to a 30-month term loan facility of HK\$20 million, a termination event would arise if 20% of the market value of certain of the Company's shares owned by Kong Fa and pledged with ICIC for the facility falls below 110% of the outstanding loan balance.



REPORT OF THE DIRECTORS

Practice Note 19 of the Listing Rules (Continued)

As at 31 December 2002, Kong Fa had pledged 596,052,085 ordinary shares of HK\$0.10 each of the Company to secure the loan facility and the outstanding loan balance was approximately HK\$19,000,000. Further details of the pledge and the related loan facility are set out in note 34 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, 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 for the purposes of reviewing and providing supervision over the Group'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

KONG LOOK SEN

Chairman and Managing Director

Hong Kong, 12 June 2003