

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31st March, 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides management services to its subsidiaries. Its subsidiaries are mainly engaged in property development and investment. There have been no changes in the nature of the Group's principal activities during the year. Further details of the Company's principal subsidiaries are set out in note 17 to the financial statements.

FINANCIAL RESULTS

The Group's loss for the year ended 31st March, 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 72.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

During the year, the Group entered into medium term loans to finance the newly acquired investment properties and repaid other loans as scheduled. Total interest-bearing debts of the Group at year-end were HK\$1,285 million (as at 31st March, 2002: HK\$1,304 million). Approximately 59% of the total debts were due and repayable within one year. Out of the current portion of the total debts, HK\$300 million was related to the 10% convertible guaranteed bonds due April 2003 (the "10% Bonds"), which have been fully repaid subsequent to the year-end, and others were mainly related to project loans which are fully secured by their underlying assets.

Total cash on hand dropped from HK\$166 million at the beginning of the year to HK\$99 million, as a result of the net cash being utilised in the Group's investing and financing activities.

The property provision of HK\$462 million being made in current year's results reduced the total assets of the Group to HK\$2,300 million at year-end (as at 31st March, 2002: HK\$2,794 million). The provision, though of no cashflow impact on the Group, increased the ratio of total interest-bearing debts over total assets from 47% at the beginning of the year to 56% at year-end. Subsequent to the year-end, the Group completed a rights issue raising HK\$200 million for the purpose of redeeming the 10% Bonds. The financial effect was a substitution of debt by equity, thereby increasing the net tangible assets as well as reducing the gearing of the Group.

Use of proceeds from the rights issue

The net proceeds of HK\$195 million from the rights issue have been used for the repayment of the 10% Bonds in accordance with the proposed application as set out in the Company's prospectus dated 30th April, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)***Funding and treasury policy**

The Group adopts a prudent funding and treasury policy. Surplus funds are primarily maintained in the form of cash deposits with leading banks. The acquisition and development of properties are financed partly by internal resources and partly by secured bank loans. Repayments of bank loans are scheduled to match asset lives and project completion dates. All borrowings are denominated in Hong Kong dollars, Renminbi, United States dollars or Canadian dollars and bear interest at floating rates except for the 10% Bonds. Foreign currency exposure is monitored closely by the management and hedged to the extent desirable. As at 31st March, 2003, the Group had no material exposure under foreign exchange contracts or any other hedging instruments.

Pledge of assets

Certain properties of the Group having a carrying value of HK\$1,626 million as at 31st March, 2003 were pledged to secure banking facilities of the Group.

Apart from the above, the Group also pledged its entire shareholding interest in two of its subsidiaries and assigned receivables of HK\$220 million due from the two subsidiaries in favour of Lucky Year Finance Limited ("Lucky Year"), a substantial shareholder of the Company, as security for Lucky Year pledging its cash deposits with banks for certain bank loans granted to the Company. The financing arrangement was approved by the independent shareholders of the Company on 28th June, 2001.

Contingent liabilities

Particulars of the Group's contingent liabilities are set out in note 31 to the financial statements.

Employees and remuneration policies

The Group employs approximately 150 employees in Hong Kong, the Mainland China and overseas. Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover, provident fund, personal accident insurance and educational subsidies to all eligible staff.

DIVIDEND

The directors do not recommend the payment of any dividends for the year ended 31st March, 2003 (2002: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 73 and 74. This summary is not part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 14 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

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

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 16 to the financial statements.

SHARE OPTIONS

Details of movements in the share options of the Company during the year, together with the reasons therefor, are set out in note 27 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 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

PURCHASE, SALE OR REDEMPTION OF CONVERTIBLE BONDS AND SECURITIES

A principal amount of HK\$159,000,000 of the 10% Bonds were redeemed at par on 22nd April, 2003 and the remaining amount of HK\$141,000,000 of the 10% Bonds were redeemed at par on 21st May, 2003.

Save as disclosed above, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's securities during the year ended 31st March, 2003 and up to the date of this report.

DISTRIBUTABLE RESERVES

At 31st March, 2003, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$22,569,000. In addition to the retained profits of the Company, the Company's share premium account of HK\$126,628,000 may be applied under the Companies Ordinance to pay up bonus shares issuable to shareholders of the Company.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied 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 (the "Listing Rules") throughout the year, except that the 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 established an audit committee, comprising William Chung-Yue Fan, Daniel Chi-Wai Tse and Patrick Yen-Tse Tsai. The audit committee comprises the two independent non-executive directors in compliance with the Code of Best Practice, and is established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. In establishing the terms of reference for the committee, the directors have made reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

DIRECTORS

The directors of the Company during the year were:

James Sai-Wing Wong
Madeline May-Lung Wong
William Chung-Yue Fan
Herman Man-Hei Fung
Roderick Sue-Cheun Wong
Daniel Chi-Wai Tse*
Patrick Yen-Tse Tsai*

* *Independent non-executive directors*

In accordance with the Company's articles of association, Herman Man-Hei Fung and Roderick Sue-Cheun Wong will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and senior management of the Group are set out on pages 11 to 13.

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 other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2003, the interests of the directors in the securities of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

The Company

Name of director	Note	Nature of interests	Number of shares held
James Sai-Wing Wong	1	Corporate	632,284,758
Madeline May-Lung Wong	1	Corporate	632,284,758
William Chung-Yue Fan		Personal	7,085
Herman Man-Hei Fung		Family	14,171

Associated Corporations

Name of director	Notes	Name of associated corporation	Nature of interest	Number/face value of securities held	Type of securities
James Sai-Wing Wong	1	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	10% Bonds
Madeline May-Lung Wong	1	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	10% Bonds
William Chung-Yue Fan	2	Wise Pacific Investment Limited	Corporate	2,000	Ordinary shares
		Hon Kwok Land Treasury II Limited	Personal	HK\$2,000,000	10% Bonds
Patrick Yen-Tse Tsai		Hon Kwok Land Treasury II Limited	Personal	HK\$2,000,000	10% Bonds

DIRECTORS' INTERESTS IN SECURITIES (Continued)*Notes:*

1. *These shares and bonds are beneficially held by Chinney Investments, Limited ("Chinney Investments"). More than one-third of the equity capital of Chinney Investments is owned by Chinney Holdings Limited which in turn is owned by Lucky Year. James Sai-Wing Wong and Madeline May-Lung Wong are directors of and beneficially own more than one-third of the equity capital of Lucky Year and, accordingly, are regarded as interested in these shares and bonds under the SDI Ordinance.*
2. *These shares are held by Gold Sound Enterprises Limited of which William Chung-Yue Fan is both a director and a shareholder.*

Save as disclosed above, as at 31st March, 2003, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in securities" above and in the share option scheme disclosed in note 27 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age 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

- (a) During the year, certain subsidiaries of Chinney Investments acted as contractors for foundation and building construction work on certain of the Group's property development projects. Total construction costs amounting to approximately HK\$11,976,000 (2002: HK\$55,125,000) were incurred in respect thereof during the year.
- (b) In April 2001, Chinney Investments subscribed for the 10% Bonds in the principal amount of HK\$141 million. The 10% Bonds bear interest at a fixed coupon rate of 10% per annum. Total interests amounting to approximately HK\$14,100,000 (2002: HK\$13,434,000) were paid to Chinney Investments during the year.
- (c) On 12th February, 2003, Chinney Investments entered into an underwriting agreement (the "Underwriting Agreement") with the Company in relation to the underwriting of all of the rights shares issued pursuant to a rights issue of 200,123,100 shares of the Company at a subscription price of HK\$1.00 per share (the "Rights Issue"), which occurred after the balance sheet date. Upon completion of the Rights Issue on 21st May, 2003, 73,367,367 shares of HK\$1.00 each were issued to Chinney Investments pursuant to the Underwriting Agreement.

The Company paid underwriting commission of approximately HK\$2,632,000 to Chinney Investments pursuant to the Underwriting Agreement which will be charged against the share premium account in the year ending 31st March, 2004.

DIRECTORS' INTERESTS IN CONTRACTS (Continued)

- (d) On 12th February, 2003, the Company and Hon Kwok Land Treasury II Limited entered into a payment arrangement deed with Chinney Investments, whereby all parties agreed that the redemption monies of HK\$141 million of the 10% Bonds held by Chinney Investments be applied towards payment of part of or the whole of the subscription monies for the shares subscribed by Chinney Investments under the Rights Issue. The deed was subsequently amended on 31st March, 2003, whereby all parties agreed that the redemption of the 10% Bonds held by Chinney Investments be deferred upon completion of the Rights Issue.
- (e) On 31st March, 2003, the Company entered into an agreement for a bridging facility with Chinney Investments whereby Chinney Investments agreed to provide financing to the Company to partly finance the redemption of the 10% Bonds. Chinney Investments will receive interest in respect of the bridging facility under normal commercial terms.

The Company has repaid all of the amount due under the bridging facility to Chinney Investments before the date of this report.

- (f) In May 2001, the Group obtained bank loan facilities of HK\$150 million through cash collateral provided by Lucky Year, a substantial shareholder of the Company. In consideration of Lucky Year's provision of the cash security, the Group agreed to pay a commission of 1.75% per annum on the average principal amount of the cash security outstanding during the term of the bank loans to Lucky Year and counter-indemnify Lucky Year in respect of the cash security by mortgaging the entire issued share capital of two of the Group's subsidiaries and assigned shareholders' loans in an aggregate amount of HK\$220,245,000 to Lucky Year. Total commissions amounting to approximately HK\$2,625,000 (2002: HK\$1,954,000) were paid to Lucky Year during the year.
- (g) Fan & Fan, Solicitors provides legal and other professional services to the Group and receives normal professional fees for such services. Total fees amounting to approximately HK\$534,000 (2002: HK\$957,000) were paid by the Group during the year.

James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in transactions (a) to (f) above because they are directors of and have beneficial interests in both Chinney Investments and Lucky Year.

William Chung-Yue Fan is deemed to be interested in transactions (a) to (e) above because he is a director of and has beneficial interests in Chinney Investments. He is also deemed to be interested in transaction (g) above by virtue of his capacity as a consultant of Fan & Fan.

Herman Man-Hei Fung is deemed to be interested in transactions (a) to (e) above by virtue of the fact that he is a director of and has beneficial interests in Chinney Investments.

Apart from the above, no director had a beneficial interest in any material contract to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACT

The Company has entered into a management contract with Chinney Investments for the provision of general corporate management services. Commencing from 1st April, 2001, Chinney Investments waived the obligations of the Company to pay management fees until further notice. Except for Daniel Chi-Wai Tse and Patrick Yen-Tse Tsai, all of the directors of the Company who served during the year are also directors of Chinney Investments.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 27 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2003, the following shareholders had an interest of 10% or more in the share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's issued share capital
Chinney Investments	632,284,758	47.39
Chinney Holdings Limited	632,284,758	47.39
Lucky Year	632,284,758	47.39
Madeline May-Lung Wong	632,284,758	47.39
James Sai-Wing Wong	632,284,758	47.39

James Sai-Wing Wong, Madeline May-Lung Wong, Lucky Year, Chinney Holdings Limited and Chinney Investments are deemed to be interested in the same parcel of shares by virtue of Section 8(2) of the SDI Ordinance.

CONNECTED TRANSACTIONS

During the year, certain subsidiaries of Chinney Investments act as contractors for construction work on property development projects of certain subsidiaries of the Company. Out of the total incurred costs of HK\$11,976,000, HK\$11,462,000 was related to contracts entered into in prior years, the approval of which is covered by the waiver letter dated 9th November, 1999 from The Stock Exchange of Hong Kong Limited as the conditions under the letter have been fulfilled and the contract value in aggregate with other contracts is within the maximum amount set out in the letter.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no directors have interests in a business which significantly competes or is likely to compete, either directly or indirectly, with the business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, purchases from the Group's five largest suppliers accounted for 47% of the total purchases for the year. Purchases from the Group's largest supplier included therein totalled 23%. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

One of the Group's five largest suppliers was a subsidiary of Chinney Investments, a substantial shareholder of the Company. James Sai-Wing Wong, Madeline May-Lung Wong, William Chung-Yue Fan and Herman Man-Hei Fung are directors of, and have beneficial interests in Chinney Investments.

Save as disclosed above, none of the directors, their associates or any shareholders (which, to the knowledge of the directors, own more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 32 to the financial statements.

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
Herman Man-Hei Fung
Vice-Chairman

Hong Kong, 15th July, 2003