

# REPORT OF THE DIRECTORS

---

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

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly-controlled entities are set out in notes 16, 17 and 18 to the financial statements, respectively.

## RESULTS AND APPROPRIATIONS

Details of the Group's results are set out in the consolidated income statement on page 20.

The directors recommend the payment of a final dividend of 2 cents per ordinary share for the year to the shareholders whose names appear on the register of members of the Company on 4th September, 2003, amounting to approximately HK\$11,027,000.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the past five financial years is set out on pages 71 and 72.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and financial resources

During the year, the Group obtained a three-year term loan of HK\$120 million from a syndicate of banks. Current ratio of the Group, as measured by total current assets over total current liabilities, has thus been enhanced from 1.07 at the beginning of the year to 1.44 at year end.

As at 31st March, 2003, the total interest-bearing debts of the Group amounted to approximately HK\$307 million. Approximately 58% of the debts were repayable within one year or on demand. After deducting the unpledged bank balances and cash of approximately HK\$184 million at year end, the net interest-bearing debts of the Group was approximately HK\$123 million. The decrease in net interest-bearing debts of the Group was mainly due to net cash generated from operating activities.

The gearing ratio, as measured by the net interest-bearing debts over the shareholders' funds, was 13% as at 31st March, 2003 (2002: 18%).

### Funding and treasury policy

The Group adopts a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and United States dollars and bear interest at floating rates.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)****Pledge of assets**

Certain inventories, trade debts, bank balances, property, plant and equipment and shares in certain associates having an aggregate book value of approximately HK\$795 million as at 31st March, 2003 were pledged to secure banking facilities of the Group.

**Contingent liabilities**

As at 31st March, 2003, the Group was contingently liable for approximately HK\$55 million in respect of guarantees provided for banking facilities utilised by jointly-controlled entities and approximately HK\$11 million in respect of bills discounted with recourse.

The Group, including its associates, has been involved in certain legal proceedings or claims as part of its normal trade and dispute on tax issue with the Hong Kong tax authority. Having regard to professional advices, the Group considers that the proceedings, claims and dispute were made without valid ground and, accordingly, no provision has been made in the financial statements.

Details of these and other contingent liabilities of the Group are set out in note 34 to the financial statements.

**Employees and remuneration policies**

The Group, not including its associates and jointly-controlled entities, employs approximately 3,300 people in Hong Kong, in other parts of the People's Republic of 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.

**SHARE CAPITAL**

Details of the issued share capital of the Company are set out in note 29 to the financial statements.

**RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

**PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$18 million for the purposes of business expansion. Details of these and other movements in the property, plant and equipment of the Group and of the Company during the year are set out in note 14 to the financial statements.

## INVESTMENT PROPERTIES

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

## DIRECTORS

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

James Sai-Wing Wong  
Madeline May-Lung Wong  
William Chung-Yue Fan\*  
Herman Man-Hei Fung  
Roderick Sue-Cheun Wong  
Frankie Yick-Cheung Lee  
Clement Kwok-Hung Young\*

\* *Independent non-executive directors*

In accordance with Article 104 of the Company's Articles of Association, William Chung-Yue Fan and Roderick Sue-Cheun Wong retire by rotation and, being eligible, offer themselves for re-election.

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 CONTRACTS OF SIGNIFICANCE

1. During the year, the Group had the following transactions with Hon Kwok, an associate of the Company:
  - (a) Certain subsidiaries acted as contractors for property development projects undertaken by certain subsidiaries of Hon Kwok. The amount of such contract work performed amounting to approximately HK\$11,976,000.
  - (b) In April 2001, the Company subscribed for a principal sum of HK\$141 million of the 10% convertible guaranteed bonds issued by a wholly-owned subsidiary of Hon Kwok. The bonds bear interest at a fixed coupon rate of 10% per annum. Total interest amounting to approximately HK\$14,100,000 was received from Hon Kwok.
  - (c) On 12th February, 2003, the Company entered into an underwriting agreement with Hon Kwok in respect of a proposed rights issue of 200,123,100 rights shares of Hon Kwok at a subscription price of HK\$1 per rights share (the "Underwriting Agreement"). Pursuant to the Underwriting Agreement, the Company has irrevocably undertaken to subscribe for 94,842,711 rights shares of Hon Kwok provisionally allotted to the Company in respect of its beneficial shareholding in Hon Kwok. The Company also agreed to underwrite the remaining 105,280,389 rights shares. Hon Kwok would pay a commission of approximately HK\$2,632,000, equivalent to 2.5% of the total subscription monies of the rights shares underwritten by the Company.

**DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE** (Continued)

- (d) On 12th February, 2003, the Company, Hon Kwok and Hon Kwok Land Treasury II Limited entered into a deed for payment arrangement of the subscription monies payable by the Company for the subscription of the rights shares of Hon Kwok and the repayment of the principal sum of HK\$141 million (the "Redemption Monies") convertible guaranteed bonds issued by Hon Kwok Land Treasury II Limited. The deed was subsequently amended on 31st March, 2003 whereby all parties agreed that the Redemption Monies shall be deferred and applied towards the payment of part of or the whole of the subscription monies payable by the Company for the subscription of the rights shares of Hon Kwok.
- (e) On 31st March, 2003, the Company granted an unsecured bridging facility of a maximum of HK\$159 million to Hon Kwok for the repayment of the convertible guaranteed bonds issued by Hon Kwok Land Treasury II Limited and held by other bondholders upon their maturity on 22nd April, 2003. The advance under the bridging facility was repaid in full before the date of this report.

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, Hon Kwok. Roderick Sue-Cheun Wong is also a director of Hon Kwok.

2. During the year, the Company received management fees amounting to HK\$2,000,000 from Chinney Alliance, an associate of the Company, for the provision of administration and general services for the year ended 31st March, 2003.

James Sai-Wing Wong and Herman Man-Hei Fung are directors of, and have beneficial interests in, Chinney Alliance. Madeline May-Lung Wong has a beneficial interest in Chinney Alliance.

Save as disclosed above, no contracts of significance to which the Company, its holding companies or any of its subsidiaries and fellow 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.

**DIRECTORS' INTERESTS IN SECURITIES**

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

**The Company**

<b>Name of director</b>	<b>Note</b>	<b>Nature of interest</b>	<b>Number of shares held</b>
James Sai-Wing Wong	1	Corporate	296,919,324
Madeline May-Lung Wong	1	Corporate	296,919,324
William Chung-Yue Fan		Personal	3,918,285
Herman Man-Hei Fung		Personal	10,040,000

**DIRECTORS' INTERESTS IN SECURITIES** (Continued)**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	2	Hon Kwok	Corporate	632,284,758	Ordinary shares
	2	Chinney Alliance	Corporate	961,957,982	Ordinary shares
	2	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	10% convertible guaranteed bonds
Madeline May-Lung Wong	2	Hon Kwok	Corporate	632,284,758	Ordinary shares
	2	Chinney Alliance	Corporate	961,957,982	Ordinary shares
	2	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	10% convertible guaranteed bonds
William Chung-Yue Fan		Hon Kwok	Personal	7,085	Ordinary shares
		Hon Kwok Land Treasury II Limited	Personal	HK\$2,000,000	10% convertible guaranteed bonds
Herman Man-Hei Fung		Hon Kwok	Family	14,171	Ordinary shares
	3	Chinney Alliance	Personal	8,000,000	Share options

*Notes:*

- These shares are beneficially held by Chinney Holdings. More than one-third of the equity capital of Chinney Holdings is owned by Lucky Year, of which James Sai-Wing Wong and Madeline May-Lung Wong are directors and shareholders.*
- James Sai-Wing Wong and Madeline May-Lung Wong are deemed to have beneficial interests in these shares and bonds held by the Company or its wholly-owned subsidiary by virtue of their respective interest in the equity capital of Lucky Year as described in note 1.*
- These share options can be exercised up to 12th July, 2009 at an exercise price of HK\$0.07 per share, subject to adjustment. During the year, no share options were exercised.*

Save as disclosed above and other than certain nominee shares in subsidiaries held by James Sai-Wing Wong in trust for the Group, none of the directors or their associates had any beneficial interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance at 31st March, 2003.

## 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
Chinney Holdings	296,919,324
Lucky Year	296,919,324
Madeline May-Lung Wong	296,919,324
James Sai-Wing Wong	296,919,324

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

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

None of the directors, their spouses or children under the age of 18 had any rights to subscribe for securities of the Company or had exercised any such rights, and at no time during the year was the Company, its holding companies or any of its subsidiaries and fellow 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 debt securities (including debentures) of, the Company or any other body corporate.

## PURCHASE, SALE OR REDEMPTION OF SHARES

There were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's shares during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 45% of the Group's turnover and turnover attributable to the Group's largest customer accounted for approximately 20% of the Group's turnover.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 36% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 25% of the Group's purchases.

None of the directors, their associates or any shareholders whom to the knowledge of the directors owns more than 5% of the Company's issued share capital has an interest in the Group's five largest customers and suppliers.

#### **POST BALANCE SHEET EVENT**

Details of a significant post balance sheet event are set out in note 37 to the financial statements.

#### **DONATIONS**

During the year, the Group made donations amounting to approximately HK\$21,000.

#### **AUDIT COMMITTEE**

The Company has established an audit committee comprising William Chung-Yue Fan and Clement Kwok-Hung Young.

#### **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied throughout the year ended 31st March, 2003 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 except that the non-executive directors are not appointed for specific terms as they are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association.

#### **AUDITORS**

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years. A resolution will be submitted at the Annual General Meeting of the Company to re-appoint them.

On behalf of the Board  
**Herman Man-Hei Fung**  
*Managing Director*

Hong Kong, 15th July, 2003