

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company continued to be an investment holding company. The principal activities of its subsidiaries continued to be property investment, property trading and investment holding. Details of these activities are set out in note 34 to the financial statements.

Over 50% of the Group's turnover for the year was derived from its property rental business in Hong Kong. An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 20.

The directors recommend the payment of a final dividend of HK1.5 cents per share for the year ended 31 December 2003 which makes a total distribution of approximately HK\$12 million for the year ended 31 December 2003 (2002: HK\$12 million). Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 13 May 2004 to shareholders registered on 6 May 2004.

FIXED ASSETS

Movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held by the Group are set out on pages 66 and 67.

Movements in the property held for development during the year are set out in note 16 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in notes 17 and 34 to the financial statements, respectively.

ASSOCIATES

Particulars of the Group's interests in its principal associate are set out in note 18 to the financial statements.

REPORT OF THE DIRECTORS

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 22 and 23 and note 26 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserve available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$1,383 million (2002: HK\$1,069 million), of which HK\$12 million has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$94.5 million (2002: HK\$94.5 million) may be distributed in the form of fully paid bonus shares.

BANK LOANS

The Group's bank loans, which comprise term loans and revolving credit facilities, are secured by certain properties held by the Group. An analysis of these borrowings is set out in note 23 to the financial statements.

FINANCIAL SUMMARY

Results, assets and liabilities of the Group for the last five financial years are summarised on page 68.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and turnover for the year attributable to the Group's major suppliers and customers are as follows:

	2003	2002
	%	%
Purchases		
– the largest supplier	34	15
– five largest suppliers combined	65	51
Turnover		
– the largest customer	25	13
– five largest customers combined	47	49

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the suppliers or customers noted above.

REPORT OF THE DIRECTORS

DIRECTORS

The directors who held office during the year and up to the date of this report are listed on page 2.

The Company's bye-laws provide for all directors of the Company (including independent non-executive directors but excluding the chairman and/or the managing director) to retire by rotation. In accordance with bye-law 87, Mr. Yuen Wing Shing retires from office this year and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Pursuant to two respective ordinary resolutions passed at the annual general meeting of the Company held on 26 May 2003, Messrs. Lee Ka Sze, Carmelo and Wong Wai Kwong, David, independent non-executive directors, shall cease to hold office from close of the forthcoming annual general meeting of the Company and each of them will offer himself for re-election as non-executive director.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements, respectively.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2003, the register kept under Section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") showed that the directors of the Company held the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO):

(a) Interests in the Company

Name	Nature of interest	No. of ordinary shares	Approximate % of shareholding
Cheung Chung Kiu	Corporate	273,000,000 (Note 1)	34.25%
Wong Chi Keung	Personal	2,000,000 (Note 2)	0.25%

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SECURITIES (continued)

Notes:

- (1) Mr. Cheung Chung Kiu ("Mr. Cheung") was deemed to be interested in 273,000,000 shares in the Company by virtue of his indirect shareholding interest in Funrise Limited ("Funrise") which owned these shares. Funrise was a wholly-owned subsidiary of Yugang International (B.V.I.) Limited ("Yugang International (B.V.I.)"), which was, in turn, a wholly-owned subsidiary of Yugang International Limited ("Yugang"). Mr. Cheung and Chongqing Industrial Limited ("Chongqing") owned 0.63% and 37.79% of the issued share capital of Yugang, respectively. Chongqing was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited which was owned by Mr. Cheung and his associates, and as to 30% and 5% by Peking Palace Limited ("Peking Palace") and Miraculous Services Limited ("Miraculous Services"), respectively. Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.
- (2) The reference to 2,000,000 shares relates to options over 2,000,000 shares in the Company. Details of these options are set out in the section headed "Share Option Scheme" of this report.

(b) Interests in The Cross-Harbour (Holdings) Limited ("Cross-Harbour")

(i) Interests in shares

Name	Nature of interest	No. of ordinary shares	Approximate % of shareholding
Cheung Chung Kiu	Corporate	69,039,417 (Note 3)	27.55%

Note (3): Honway Holdings Limited ("Honway", an indirect wholly-owned subsidiary of the Company) owned 69,039,417 shares in Cross-Harbour. By virtue of his deemed interest in the issued share capital of the Company as described in note (1) above, Mr. Cheung was deemed to be interested in these shares.

(ii) Interests in share options

Name	No. of underlying shares	Approximate % of shareholding
Cheung Chung Kiu	60,000,000 (Note 4)	23.95%

Note (4): This represents the maximum number of shares issuable upon exercise of the entire option granted on 24 June 2003 (the "Option") pursuant to the share option agreement dated 9 May 2003 made between Cross-Harbour and Honway. Mr. Cheung was deemed to be interested in these underlying shares by virtue of his deemed interest in Honway as described in note (3) above.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SECURITIES *(continued)*

(iii) Interests in debentures

Name	Type of debenture	Balance of the principal amount of the debenture and no. of underlying shares	Approximate % of shareholding
Cheung Chung Kiu	Convertible note (Note 5)	HK\$80,457,060 convertible into 21,745,151 new shares at a conversion price of HK\$3.70 per share (Note 6)	8.68%

Notes:

- (5) Under the terms of the convertible note, Honway has a right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time, from the date of issue of the convertible note up to the third anniversary of the issue of the convertible note in amounts of not less than HK\$1 million on each conversion. Mr. Cheung was deemed to be interested in the underlying shares in respect of the convertible note by virtue of his deemed interest in Honway.
- (6) This represents the interest in the underlying shares derived from the convertible note with the outstanding amount of HK\$80,457,060. The conversion price is HK\$3.50 per share for the period from the date of issue of the convertible note up to the first anniversary of the date of issue of the convertible note (the "First Year"), HK\$3.70 per share for the period from the date immediately following the first anniversary of the date of issue of the convertible note up to the second anniversary of the date of issue of the convertible note, and HK\$3.90 per share for the period from the date immediately following the second anniversary of the date of issue of the convertible note up to the third anniversary of date of issue of the convertible note (the "Third Year"), subject to adjustment. The total number of the underlying shares in respect of the convertible note changes from the First Year to the Third Year.

All the interests disclosed above represent long positions in the shares, underlying shares and debentures of the Company or Cross-Harbour.

Save as disclosed herein, there was no interest or short position recorded in the register kept under Section 352 of the SFO as at 31 December 2003.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 22 December 1993, prior to amendments to Share Option Scheme (as set out in Chapter 17 of the listing rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) which came into effect on 1 September 2001. According to the listing rules of the Stock Exchange as amended, the Company cannot grant any further options under the Scheme unless it complies with the new requirements of Chapter 17. However, all options granted prior to 1 September 2001 shall remain in full force and effect.

A summary of the Scheme is set out below:

- | | |
|---|---|
| 1. Purpose of the Scheme | To provide incentives or rewards to executive management and employees. |
| 2. Participants of the Scheme | Eligible full-time employees including executive directors of the Company and its subsidiaries. |
| 3. Total number of shares available for issue under the Scheme and percentage of issued share capital as at 19 March 2004 | 2,400,000 shares (0.3%). |
| 4. Maximum entitlement of each participant under the Scheme | 25% of the aggregate number of shares issued and issuable under the Scheme. |
| 5. Period within which the shares must be taken up under an option | 10 years commencing from the date of grant of such option. |
| 6. Minimum period for which an option must be held before it can be exercised. | Subject to the discretion of the directors or authorised committee in accordance to the Scheme from time to time. |
| 7. Amount payable on acceptance of the option | Nominal amount of HK\$10. |
| 8. Basis of determining the exercise price | The exercise price is the higher of:
(a) 80% of the average closing price of the existing shares of the Company on the Stock Exchange on the five trading days immediately preceding the date of offer of such option; and
(b) the nominal value thereof. |
| 9. Remaining life of the Scheme | The Scheme expired on 21 December 2003. |

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

Particulars of outstanding options at the beginning and at the end of the year and of options granted under the Scheme are as follows:

Type of participant	No. of outstanding options at the beginning and at the end of the year	Date of grant	Vesting period	Exercise period	Exercise price per share
<i>Directors</i>					
Wong Chi Keung	2,000,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860
<i>Other employees</i>					
	100,000	16 Jul 1996	16 Jul 1996 to 16 Jul 1999	16 Jan 1997 to 15 Jul 2006	HK\$0.9488
	300,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860

Note: The consideration paid by each participant for the grant of such number of options set opposite his/her name as noted above is HK\$10.

No options lapsed and no options were granted, exercised or cancelled during the year.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Save for the Scheme noted above, at no time during the year was the Company or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangement whose objects are, or one of whose objects is, to enable directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, or its subsidiaries, or its fellow subsidiaries, or its holding company 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.

Mr. Lee Ka Sze, Carmelo, is a partner of Messrs. Woo, Kwan, Lee & Lo and as such has an interest in the normal remuneration paid by the Company to that firm for the professional services rendered to the Company.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the interests or short positions of the persons, other than directors of the Company, in the shares and underlying shares of the Company as recorded in the register kept under Section 336 of the SFO were as follows:

Name	No. of ordinary shares (Note)	Approximate % of shareholding
Palin Holdings Limited	273,000,000	34.25%
Chongqing	273,000,000	34.25%
Yugang	273,000,000	34.25%
Yugang International (B.V.I.)	273,000,000	34.25%
Funrise	273,000,000	34.25%
Chan Chun Wai	123,293,201	15.47%

Note: The 273,000,000 shares set out in this column refer to the same block of shares beneficially owned by Funrise and are duplicated in Mr. Cheung's interest in the Company as disclosed in the section headed "Directors' Interests in Securities" of this report. All the interests disclosed herein represent long position in the shares of the Company.

Save as disclosed herein, there was no person known to the directors of the Company, other than a director of the Company, who, as at 31 December 2003, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws, and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer shares on a pro rata basis to existing shareholders.

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting year covered by the annual report, in compliance with the Code of Best Practice as set out in Appendix 14 to the listing rules of the Stock Exchange.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors, namely Messrs. Lee Ka Sze, Carmelo and Wong Wai Kwong, David. The function of the audit committee is to assist the board of directors in providing an independent review of effectiveness of the financial reporting process and internal control system of the Company.

AUDITORS

The financial statements for the year have been audited by Ernst & Young, Certified Public Accountants, who retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wong Chi Keung
Managing Director

Hong Kong, 19 March 2004