

Report of the Directors

The directors present their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries, jointly-controlled entity and principal associates are set out in notes 18, 19 and 20 to the financial statements, respectively.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 67.

The directors recommend the payment of a final dividend of HK\$0.002 per ordinary share in respect of the year, to shareholders on the register of members on 6 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and turnover by geographical area of operations for the year ended 31 December 2003 is set out in note 4 to the financial statements.

SUMMARY OF 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 68. 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 Group are set out in notes 15 and 16 to the financial statements, respectively.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 18 to the financial statements.

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JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group's interests in its jointly-controlled entity and principal associates are set out in notes 19 and 20 to the financial statements, respectively.

CONVERTIBLE NOTES

Details of the Company's convertible notes are set out in note 28 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the Company's share capital and share options and the movements in the Company's warrants during the year are set out in note 30 to the financial statements.

There are no provisions for pre-emptive rights under the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$50,000.

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

Cheung Chung Kiu

Yuen Wing Shing

Zhang Qing Xin

Lam Hiu Lo

Liang Kang

Chu Chow Wai (alternative director to Cheung Chung Kiu)

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DIRECTORS *(continued)*

Independent non-executive directors:

Wong Wai Kwong, David

Lee Ka Sze, Carmelo

In accordance with bye-law 87 of the bye-laws of the Company, Yuen Wing Shing and Liang Kang will retire by rotation and, being eligible, will offer themselves for re-election as executive directors of the Company at the forthcoming annual general meeting.

Wong Wai Kwong, David and Lee Ka Sze, Carmelo, being re-elected as independent non-executive directors on 26 May 2003, hold such office only until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as independent non-executive directors.

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 9 to 10 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

On 19 October 1993, Cheung Chung Kiu entered into a service contract with the Company for an initial term of three years commencing on 1 June 1993, which has continued thereafter until terminated by either party giving to the other not less than three months' notice in writing.

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.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2003, the interests and short positions of the directors and chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Long positions in the Company's ordinary shares:

Name of director	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Cheung Chung Kiu	Corporate (note 1)	3,194,434,684	37.79%
	Personal	53,320,000	0.63%
Zhang Qing Xin	Personal	13,600,000	0.16%
Lam Hiu Lo	Personal	41,800,000	0.49%
Liang Kang	Personal	<u>34,664,000</u>	0.41%

(ii) Long position in the Company's convertible note:

Name of director	Convertible note held HK\$	Number of underlying shares held	Capacity and nature of interest	Percentage of issued share capital
Cheung Chung Kiu	<u>100,000,000</u>	<u>833,333,333</u>	Corporate (note 2)	9.86%

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

(iii) Long positions in shares and underlying shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Number of shares held	Capacity and nature of interest	Percentage of associated corporation's issued share capital
Cheung Chung Kiu	Qualipak International Holdings Limited	Company's subsidiary	Ordinary shares	2,752,396,360	Corporate <i>(note 3)</i>	69.87%
	Y.T. Realty Group Limited	Company's associate	Ordinary shares	273,000,000	Corporate <i>(note 4)</i>	34.25%
Lee Ka Sze, Carmelo	Qualipak International Holdings Limited	Company's subsidiary	Ordinary shares	1,000,000	Family	0.03%

Notes:

- (1) The voting rights of these shares are exercisable by Chongqing Industrial Limited. Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing Industrial Limited, respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

- (2) The convertible note was held by Timmex Investment Ltd., in which Mr. Cheung Chung Kiu has a beneficial interest of 100%. Pursuant to the terms of the convertible notes, the number of underlying shares that might be converted under the convertible note was 833,333,333. The aggregate percentage of interests in ordinary shares and underlying shares of Mr. Cheung Chung Kiu is 48.28%.

- (3) The 2,752,396,360 shares were held by Regulator Holdings Limited ("Regulator") as to 2,626,108,360 shares and Bookman Properties Limited ("Bookman") as to 126,288,000 shares. Regulator and Bookman are indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

Notes: *(continued)*

- (4) The 273,000,000 shares were held by Funrise Limited ("Funrise") and Funrise is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

In addition to the above, certain directors have non-beneficial personal interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

The interests of the directors in the share options of the Company are separately disclosed in note 30 to the financial statements.

Save as disclosed above, none of the directors and chief executive or their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations" above, and in the share option scheme disclosures in note 30 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, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions set out in note 37 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the balance sheet date, the following interests of 5% or more of the issued share capital and the underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares/ underlying shares held	Percentage of the Company's issued share capital
Timmex Investment Limited	1	Corporate	833,333,333	9.86%
Chongqing Industrial Limited	2	Corporate	3,194,434,684	37.79%
Palin Holdings Limited	3	Trustee of a Family Trust	<u>3,194,434,684</u>	37.79%

Notes:

- (1) The interest represents the shares issuable upon the exercise of the conversion right attaching to the convertible note of HK\$100,000,000 that is held by Timmex Investment Limited, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.
- (2) The voting rights of these shares are exercisable by Chongqing Industrial Limited which is controlled by Mr. Cheung Chung Kiu.
- (3) Palin Holdings Limited is a trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

Save as disclosed above, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short position in the shares, underlying shares and debentures of the Company and its associated corporations" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$860,237,000, of which HK\$16,907,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account in the amount of HK\$840,629,000 may be distributed in the form of fully paid bonus shares.

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MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 30% of the total sales for the year and sales to the largest customer included therein amounted to 7%.

Purchases from the Group's five largest suppliers accounted for 28% of the total purchases for the year and purchases from the largest supplier included therein amounted to 11%.

As far as the directors are aware, neither the directors of the Company, their associates, nor any shareholders which, to the 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 and five largest suppliers.

LIQUIDITY AND CAPITAL RESOURCES

As at the balance sheet date, the Group's net current assets amounted to approximately HK\$1,101 million with a current ratio of 4.7. The cash and cash equivalents of the Group decreased from approximately HK\$595 million to HK\$523 million during the year.

The Group had short term banking facilities of approximately HK\$238 million as at 31 December 2003. The Group has an outstanding bank loans of HK\$80 million as at the balance sheet date.

CONNECTED TRANSACTIONS

On 9 May 2000, Faircom Limited ("Faircom"), a wholly-owned subsidiary of the Company, entered into a convertible note subscription agreement with Qualipak International Holdings Limited ("Qualipak"), a subsidiary of the Company listed on the Stock Exchange, in relation to the subscription by Faircom for a convertible note of Qualipak amounting to HK\$150,000,000. The convertible note is repayable on 21 June 2003 (the "Maturity Date") and bears interest at 5% per annum. The reason for the above subscription is to provide funds for the general working capital purposes and further investments by Qualipak. During the year, Faircom received interest on the convertible note of approximately HK\$3,496,149 (2002: HK\$7,594,000). The conversion rights attaching to the note were exercised to convert them in full into 1,562,500,000 shares of Qualipak at a price of HK\$0.096 per share in June 2003. Accordingly, the Group's aggregate equity holding percentage in Qualipak increased from 50.06% to 69.87%. Subsequent to the balance sheet date, on 12 January and 18 February 2004, the Group disposed in aggregate of 400,000,000 shares in Qualipak to independent third parties at a price of HK\$0.17 each. Immediately after these transactions, the shareholding of the Company in Qualipak dropped from 69.87% to 59.71%.

The Group has entered into a sub-tenancy agreement for the premises situated at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, with Chongqing Industrial Limited ("CQ"), being a substantial shareholder of the Company for the year. The monthly rental and other charges for the sub-tenancy is HK\$77,869 and a security deposit of HK\$155,738 was paid to CQ. Total rent and other charges paid for the year was approximately HK\$934,428.

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CONNECTED TRANSACTIONS *(continued)*

On 18 June 2001, the Company entered into an agreement with Timmex Investment Ltd. ("Timmex") in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$100,000,000 (the "Note"). Timmex is 100% beneficially owned by Cheung Chung Kiu, a director of the Company. The Note conferred the right on the holder to convert the whole or part of the principal amount of the Note into ordinary shares of the Company at any time from the date of its issue for a period of three years, at a conversion price of HK\$0.10 per share in the first year, HK\$0.11 per share in the second year and HK\$0.12 per share in the third year, subject to adjustment. The Note will mature for principal repayment on 31 July 2004. Interest on the Note is accrued from the date of issue on a day-to-day basis at 5% per annum on the principal amount of the Note and is payable annually in arrears. During the year, interest expense paid to Timmex amounted to HK\$5,000,000 (2002: HK\$5,000,000).

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not or was not in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange for any part of the year 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

Cheung Chung Kiu

Chairman

Hong Kong

26 March 2004