



Report of the Directors

The directors present herewith their report together with the audited accounts for the year ended 31st December, 2003 which were approved at the board meeting held on the date of this report.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of the subsidiaries are general trading, property investment and provision of real estate agency services.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest customers accounted for approximately 55% (2002: 35%) of the Group's turnover for the year. Approximately 40% (2002: 13%) of the Group's turnover was attributable to the largest customer.

Approximately 47% (2002: 40%) of the Group's purchases for its trading operation were attributable to the five largest trading operation suppliers with the largest supplier accounted for approximately 16% (2002: 10%) of the purchases. Due to the nature of the Group's other operations, information on the Group's customers and suppliers for the Group's other operations are not provided as it is considered to be of limited value. None of the directors, their associates or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's share capital) had any beneficial interests in the Group's five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated profit and loss account on page 19.

The Board of Directors does not recommend the payment of a dividend for the year ended 31st December, 2003 (2002: Nil).

RESERVES

The movements in reserves of the Group and the Company during the year are set out in note 19 to the accounts.

DISTRIBUTABLE RESERVES

At 31st December, 2003, the distributable reserves of the Company calculated under Section 79B of the Hong Kong Companies Ordinance, available for distribution as dividends amounted to approximately HK\$128 million (2002: HK\$129 million).

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31st December, 2003 are set out in note 10 to the accounts.



Report of the Directors (Cont'd)

FIXED ASSETS AND INVESTMENT PROPERTIES

The movements in fixed assets during the year are set out in note 9 to the accounts. Details of the principal properties are set out on pages 55 and 56.

BORROWINGS

Details of the Group's and the Company's borrowings as at 31st December, 2003 are set out in note 22 to the accounts.

DIRECTORS

The directors of the Company who held office during the year and up to the date of this report were set out below:

Executive directors

Rustom Ho Ming Yu

John Ho Ming Tak

Non-executive director

Chiu Chui Yi

Independent non-executive directors

Lawrence Yu Kam Kee

David Yu Hon To

In accordance with Article 104(A) of the Company's Articles of Association, Mr. Lawrence Yu Kam Kee retires by rotation at the forthcoming Annual General Meeting, being eligible, offers himself for re-election.

Brief biographical information of the directors are as follows:

Mr. Rustom Ho Ming Yu, aged 51, is the Chairman of the Group. Mr. Rustom Ho joined the Group in January 1992. He has held senior management positions in the textiles industry for over 23 years and is also the Chairman of Kwong Fong Industries Corporation.

Mr. John Ho Ming Tak, aged 49, is the managing director of the Group. Mr. John Ho joined the Group in November 1991. He has over 26 years' experience in commodities trading and dealing in securities and is also a director of Kwong Fong Industries Corporation. Mr. John Ho is the brother of Mr. Rustom Ho.

Mr. Chiu Chui Yi, aged 55, has been a director of the Company since March 1999. He has 34 years' experience in finance and accounting. He has been the director of Kwong Fong Holdings Limited since July 1992.



Report of the Directors (Cont'd)

Mr. Lawrence Yu Kam Kee, MBE, JP, aged 58, has been an independent non-executive director of the Company since November 1994. Mr. Yu is the Vice Chairman of Softbank Investment International (Strategic) Limited, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Yu has over 33 years of senior management experience. He is also the co-Chairman, Campaign Committee of The Community Chest; Director of Hong Kong Football Association Limited; Governor of Hong Kong Automobile Association; the Chairman, Campaign Committee of The Road Safety Council.

Mr. David Yu Hon To, aged 56, was appointed as an independent non-executive director of the Company on 7th January, 1999. Mr. Yu is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Society of Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. Mr. Yu is a founder and director of Management Capital Limited, which specialises in direct investment and financial advisory activities and also on the board of several listed and private companies in Hong Kong.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding companies, its subsidiaries or its fellow subsidiaries was a party 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' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

SHARE OPTIONS

Pursuant to the Employees Share Option Scheme (the "Scheme") approved by the shareholders on 29th March, 1993, the directors may, at their discretion, grant options to certain employees of the Company or its subsidiaries, including directors of such companies, to subscribe for ordinary shares of HK\$0.20 each in the Company.

The purpose of the Scheme is to give the employees an opportunity to acquire an ownership interest in the Company as an additional incentive in order to attract and retain employees of the appropriate calibre and experience.

The basis of determining the exercise price is the higher of (a) the nominal amount of share to be subscribed and (b) an amount determined by the Directors in relation to each share option, being not less than 80 per cent of the arithmetical average, as determined by the Directors, of the closing price of the Company's shares listed on The Stock Exchange of Hong Kong Limited on each of the five trading days immediately preceding the date of granting the share options.



Report of the Directors (Cont'd)

The movement of the share options under the Scheme are as follows:

	Held at 1st January, 2003	Number of options lapsed during the year	Held at 31st December, 2003
Director-Mr. Rustom Ho Ming Yu	6,000,000	(6,000,000)	–
Director-Mr. John Ho Ming Tak	6,000,000	(6,000,000)	–
Continuous contract employees	180,000	(180,000)	–
	<u>12,180,000</u>	<u>(12,180,000)</u>	<u>–</u>

The options were granted on 2nd September, 1993 at an exercisable price of HK\$0.94 per share with exercisable period from 2nd September 1993 to 1st September, 2003. No share option was granted or exercised during the year. All outstanding share options were lapsed as at 1st September, 2003.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31st December, 2003, the interests of directors and chief executive in the securities of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Ordinary Shares of the Company

Directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Rustom Ho Ming Yu	–	–	138,347,288*	–	138,347,288
Mr. John Ho Ming Tak	–	600,000	138,347,288*	–	138,947,288

* By virtue of the SFO, both Mr. Rustom Ho Ming Yu and Mr. John Ho Ming Tak are deemed to have interest in the 138,347,288 shares held by Fulcrest Limited. Interests in the same share have been disclosed by Fulcrest Limited and others as substantial shareholders.

Share options were granted to certain directors under the Employees Share Option Scheme approved by the shareholders on 29th March, 1993. All share options were lapsed during the year (refer details under share options above).

Apart from the share option scheme mentioned above, none of the director and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SFO).



Report of the Directors (Cont'd)

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, other than interests of directors disclosed above, amounting to 5% or more of the issued share capital of the Company:

Ordinary Shares of the Company

Substantial shareholders	Number of shares held	
	Direct interest	Deemed interest
Fulcrest Limited	138,347,288	–
Raynor Holdings Limited	–	138,347,288
Seward Holdings Corp.	–	138,347,288
Asian Pacific Investment Corporation	–	138,347,288
Kwong Fong Holdings Limited	710,000	138,347,288
Kwong Fong Industries Corporation	8,680,000	139,057,288
Top Glory Holding Company Limited	45,058,000	–

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTION

During the year, the Group had the following connected transaction:

On 1st August, 1997, the Company through its wholly owned subsidiary, Pakka Properties Limited ("Pakka"), entered into a joint venture agreement with a third party, for the establishment of Poppins Properties Limited ("Poppins"), a subsidiary of the Company, which would in turn form a cooperative joint venture with two PRC parties to invest in a property project in Shanghai known as Merry Tower. Merry Tower comprises apartments, a shopping mall and car parking spaces.

Under the joint venture agreement, the third party granted a first right of refusal to Pakka pursuant to which the third party undertook to sell his interest in Poppins to Pakka at a fair price before offering to sell the same in whole or in part to any third party. On 5th September, 2001 Pakka also agreed to grant option of Poppins by converting the balance of a portion of shareholder loan (together with interest) totalling HK\$6,915,010 into new shares in Poppins.



Report of the Directors (Cont'd)

On 1st May, 2003, the third party exercised the options. As a result of this, the third party's interest in Poppins increased from 4.82% to 14.41% as enlarged by the issue of the conversion shares.

On 5th May, 2003, the third party offered to sell his entire 14.41% interest in Poppins to Pakka pursuant to the first right of refusal under the joint venture agreement. Pakka accepted the offer on 29th May, 2003 with a consideration of RMB17.9 million (approximately HK\$16.9 million) and the acquisition was completed on the same day.

The third party was a connected person of the Company by virtue of the fact that he was a director and a substantial shareholder of Poppins (after exercise of the options of Poppins), at the time of the transactions.

FIVE YEAR/PERIOD FINANCIAL INFORMATION

The results, assets and liabilities of the Group for the last five years/period as extracted from the audited accounts are as follows:

	Year ended 31.12.2003 <i>HK\$'000</i>	Year ended 31.12.2002 As restated <i>HK\$'000</i>	Year ended 31.12.2001 <i>HK\$'000</i>	Year ended 31.12.2000 <i>HK\$'000</i>	Fifteen months ended 31.12.1999 <i>HK\$'000</i>
(Loss)/profit after taxation and attributable to shareholders	<u>(20,143)</u>	<u>7,257</u>	<u>(35,946)</u>	<u>(100,147)</u>	<u>(51,150)</u>
Total assets	863,895	731,037	790,554	909,197	983,725
Total liabilities	(441,210)	(328,149)	(295,754)	(380,053)	(362,676)
Minority interests	(769)	(1,913)	(1,981)	(1,980)	(1,613)
Net assets	<u>421,916</u>	<u>400,975</u>	<u>492,819</u>	<u>527,164</u>	<u>619,436</u>

Certain figures for the year ended 31st December, 2002 were restated as a result of the adoption of Statement of Standard Accounting Practise No. 12 "Income Taxes" in current year. Figures for the year/period end of 1999 to 2001 were not restated as it is impracticable to determine the amounts restated to those years/period.

SUBSEQUENT EVENT

On 6th February, 2004, the Company had entered into an agreement with an independent party to dispose of its entire indirect interest in the owner and developer of Hainan Yangpu Economic Zone. The transaction was completed on 27th February, 2004 at a consideration of approximately HK\$12 million and to be recorded in the year 2004.



Report of the Directors *(Cont'd)*

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting year covered by the annual report. Independent non-executive directors are subject to retirement and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's Articles of Association. In the opinion of the directors, this meets the same objective as the Code of Best Practice.

AUDIT COMMITTEE

The written terms of reference which describes the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Yu Hon To, David and Mr. Yu Kam Kee, Lawrence. Two meetings were held during the current financial year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment and a resolution to this effect will be proposed at the Annual General Meeting.

On behalf of the Board

John Ho Ming Tak

Managing Director

Hong Kong, 15th April, 2004