



DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 35 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 26.

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the year end date. The revaluation resulted in a deficit of HK\$Nil (2002: HK\$17,900,000), which has been charged directly to the consolidated income statement. Details of such revaluation are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT AND PROPERTIES HELD FOR DEVELOPMENT

Movements during the year in the Group's property, plant and equipment and the details of the Group's properties held for development are set out in notes 15 and 16 to the financial statements, respectively.

Particulars regarding the Group's major properties are set out on pages 78 to 80.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the financial statements.

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



DIRECTORS' REPORT (CONTINUED)

DIRECTORS

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

Executive Directors

Mr. Leung Siu Fai

Mr. Kam Hung Chung

Mr. Sun Pak Fun

(resigned on 26th November, 2003)

Mr. He Yongwen

(resigned on 1st August, 2003)

Independent Non-Executive Directors

Mr. Eddie Mui Ho Chow

Mr. Peter Lee Yip Wah

In accordance with the provisions of the Company's Bye-laws, Mr. Peter Lee Yip Wah retires by rotation at the forthcoming annual general meeting and, being eligible, offers himself 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).

The term of office of each Independent Non-Executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.



DIRECTORS' REPORT (CONTINUED)

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Leung Siu Fai, aged 53, is the Chairman and Managing Director of the Company. Mr. Leung was appointed as a Director of the Company in July 1995. He graduated from Guangzhou Jinan University and has extensive experience in finance and business management.

Kam Hung Chung, aged 56, joined the Company as an Assistant Managing Director in April 1998. He has extensive experience in the marketing and administration of real estate, and property development both in Hong Kong and the PRC, other than Hong Kong.

Independent Non-Executive Directors

Eddie Mui Ho Chow, aged 47, is an Independent Non-Executive Director of the Company. Mr. Mui graduated from the University of Hong Kong. He was appointed as a Director of the Company on 1st February 1995. He is a practising lawyer. He has 20 years of working experience, and specialises in commercial and industrial law.

Peter Lee Yip Wah, aged 62, has been an Independent Non-Executive Director of the Company since 10th April 1995. Mr. Lee is a practising solicitor. He is also a Non-Executive Director of Tern Properties Company Limited, Elec & Eltek International Holdings Limited, Yu Ming Investments Limited and Shenzhen Investment Limited.

Note: The Group's businesses are under the direct responsibility of the above executive directors who are regarded as members of the senior management of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its 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' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2003, the interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

(a) Interest in shares of the Company:—

Name of Director	Number of shares	Nature of interest	Notes	% of total issued share capital as at 31st December, 2003
Leung Siu Fai	151,610,779	Corporate	1	16.57%
Kam Hung Chung	58,971,428	Corporate	2	6.44%
Peter Lee Yip Wah	200,000	Personal	3	0.02%

Notes:

1. These shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai.
2. These shares were held by Sintex Investment Limited in which Mr. Kam Hung Chung had 50% interest.
3. These shares were held by Mr. Peter Lee Yip Wah as beneficial owner.

(b) Interest in share options of the Company:—

Share options were granted to certain directors of the Company pursuant to the share option scheme of the Company. Details of the directors' interest in share options granted by the Company are set out in the following section "Share Options" of this report.

Save as disclosed above, none of the directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as recorded in the register required to be kept under section 352 of the SFO as at 31st December, 2003.



DIRECTORS' REPORT (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

As at the 31st December, 2003, the following persons and corporations had, interests in 5% or more in the shares and underlying shares of the Company, as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of issued shares	Number of underlying shares in share options	Number of underlying shares in derivative interests*	Notes	Capacity	Percentage (in aggregate) of total issued shares as at 31st December, 2003
Leung Siu Fai	151,610,779	5,000,000	—	1	Beneficial owner and controlled corporation	17.12%
Mighty Management Limited	151,610,779	—	—	1	Beneficial owner	16.57%
Nam Keng Van Investment Co. Ltd.	89,271,895	—	32,592,592	2	—	13.32%
Lau Ming En	700,000	—	111,111,111		Beneficial owner	12.22%
Fung Kam Wing	—	—	111,111,111		Beneficial owner	12.14%
Topgrow Limited	—	—	92,592,592		Nominee for another person	10.12%
Wideco Investment Limited	—	—	92,592,592		Nominee for another person	10.12%
Delight View Enterprises Limited	—	—	74,074,074		Nominee for another person	8.10%
Kam Hung Chung	58,971,428	5,000,000	—	3	Beneficial owner and controlled corporation	6.99%
Sintex Investment Limited	58,971,428	—	—	3	Beneficial owner	6.44%
Zhong Baoguo	58,971,428	—	—	3	Controlled corporation	6.44%



DIRECTORS' REPORT (CONTINUED)

Name	Number of issued shares	Number of underlying shares in share options	Number of underlying shares in derivative interests*	Notes	Capacity	Percentage (in aggregate) of total issued shares as at 31st December, 2003
Oriental Trade Ltd.	55,555,555	—	—		Beneficial owner	6.07%
Success Digital International Limited	—	—	55,555,555		Beneficial owner	6.07%
Gearway Limited	—	—	55,555,555		Nominee for another person	6.07%
He Yongwen	48,917,142	5,000,000	—	4	Beneficial owner and controlled corporation	5.89%
New City Holdings Limited	48,917,142	—	—	4	Beneficial owner	5.35%

* *being unlisted physically settled derivatives interests*

Notes

1. These 151,610,779 shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai. In addition, Mr. Leung Siu Fai held 5,000,000 share options granted under the share option scheme of the Company.
2. These interests (including derivative interests in respect of 32,592,592 shares) were disclosed by Nam Keng Van Investment Co. Ltd.
3. These 58,971,428 shares were held by Sintex Investment Limited in which Mr. Kam Hung Chung had 50% interest and Mr. Zhong Baoguo had 50% interest. In addition, Mr. Kam Hung Chung held 5,000,000 share options granted under the share option scheme of the Company.
4. These 48,917,142 shares were held by New City Holdings Limited which was wholly-owned by Mr. He Yongwen. In addition, Mr. He Yongwen held 5,000,000 share options granted under the share option scheme of the Company which was lapsed after his resignation as director of the Company.



DIRECTORS' REPORT (CONTINUED)

SHARE OPTIONS

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

Details of the movements in the share options granted under the former share option scheme, which was terminated on 20th May, 2003, during the year are as follows:

	Outstanding at 1st January, 2003	Lapsed during the year	Outstanding at 31st December, 2003	Percentage of total issued share capital as at 31st December, 2003
Directors				
Mr. Leung Siu Fai	5,000,000	—	5,000,000	0.55%
Mr. Kam Hung Chung	5,000,000	—	5,000,000	0.55%
Former Directors				
Mr. Sun Pak Fun	5,000,000	—	5,000,000	0.55%
Mr. He Yongwen	5,000,000	5,000,000	—	—
Total for directors	20,000,000	5,000,000	15,000,000	
Employees	9,500,000	1,000,000	8,500,000	0.93%
Total	29,500,000	6,000,000	23,500,000	

Note: Mr. Sun Pak Fun resigned as director of the Company on 26th November, 2003 and Mr. He Yongwen resigned as director of the Company on 1st August, 2003.

The share options, being physically settled unlisted derivatives, were held by the respective grantees personally as beneficial owners. The consideration paid by each grantee for the share options granted was HK\$1.00. The share option can be exercised at an exercise price of HK\$0.347 per share during a period from 15th September, 2002 to 27th June, 2004. No share options were granted, exercised or cancelled under the former share option scheme during the year.

No option has been granted under the existing share option scheme since its adoption on 20th May, 2003.

The total number of share option available for issue under the existing share option scheme is 61,999,582 which represents 6.78% of the issued share capital at the date of report.



DIRECTORS' REPORT (CONTINUED)

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the following connected transactions of the Company require disclosure in the annual report of the Company. The connected transactions which also constitute significant related party transactions are set out in note 34 to the financial statements.

During the financial year of the Company ended 31st December, 2003, the Group entered into the following transactions, in which Madam Lu, a then substantial shareholder of the Company, has a beneficial interest. Madam Lu ceased to be a substantial shareholder of the Company effective from 30th June, 2003. Therefore, the transactions for notes (1) to (3) ceased to be connected transactions effective from 30th June, 2003:

- (1) From 1st January, 2003 to 30th June, 2003 (date when Madam Lu ceased to be a substantial shareholder of the Company) (the "Period") the Group paid rental expenses amounted to HK\$553,000 to World Shine Enterprises Limited, in which Madam Lu has a beneficial interest.
- (2) The Stock Exchange of Hong Kong Limited had granted waivers from strict compliance with the Listing Rules to transactions contemplated under certain power supply agreements (collectively the "Agreement") made by the two indirect wholly owned subsidiaries of the Company namely, Jia Shun and Heng Da, with Hua Guang, Hua Ying and Heng Yi, in relation to the Power Plant in Nanhai, the PRC jointly built by these parties for the generation of electricity for the consumption by their own factories and plants. Hua Guang and Hua Ying should have been associates of Madam Lu. Pursuant to the Agreement, the quantity of coal used by the Power Plant in generating electricity for a month is to be shared by these parties according to the actual amount of electricity consumed by each of the parties for that month. The amount of material costs shared by Jia Shun and Heng Da for their electricity consumed for the Period was HK\$13,000,000.

Pursuant to the Agreement, Jia Shun and Heng Da are responsible for the following costs relating to the Power Plant:

Jia Shun was responsible for the supply of land, the building of the power plant and its related ancillary facilities at its own expenses. Depreciation of HK\$311,000 for the Period was recorded in the books of Jia Shun.

Jia Shun and Heng Da were responsible to arrange a total of 60 staff for assisting in the daily operations of the Power Plant. The wages of the staff and other staff benefits borne by Jia Shun and Heng Da for the Period amounted to HK\$368,000.



DIRECTORS' REPORT (CONTINUED)

CONNECTED TRANSACTIONS *(continued)*

Heng Da was responsible for the procurement and installation of 1 boiler of 50 tonnes at its own expenses and such fixed assets belong to Heng Da with the related depreciation being borne by Heng Da. Depreciation of HK\$170,000 for the Period was recorded in Heng Da.

Heng Da was also responsible to bear 20% of the repair and maintenance work of the Power Plant and all facilities, including the renovation of the Power Plant, and the replacement costs of the spare parts in relation to the routine management of the Power Plant. The repair and maintenance expenses borne by Heng Da for the Period was HK\$272,000.

The independent non-executive directors of the Company reviewed the transactions and confirmed that:

- the transactions have been:-
 - carried out in the ordinary and usual course of the businesses of Jia Shun and Heng Da;
 - conducted on normal commercial terms; and
 - entered into in accordance with the terms of the Agreement.
- the respective aggregate amount of the transactions for Jia Shun and Heng Da for the Period did not exceed HK\$40,000,000 and HK\$10,000,000 respectively.

The auditors of the Company reviewed the transactions and confirmed that:

- the transactions had received the approval of the Board of Directors of the Company;
- the transactions have been entered into in accordance with the terms of the Agreement; and
- the respective aggregate amount of the transactions for Jia Shun and Heng Da for the Period did not exceed HK\$40,000,000 and HK\$10,000,000 respectively.

- (3) On 24th September, 2002, the Group entered into a tenancy agreement with Mr. Feng Ming Chang ("Mr. Feng"), the spouse of Madam Lu, whereby Mr. Feng agreed to lease the factory and warehouse to the Group for a term of three years. The aggregate rental expenses paid for the Period amounted to HK\$594,000.



DIRECTORS' REPORT (CONTINUED)

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR SUPPLIERS AND CUSTOMERS

Except from the balances attributable to Heng Da, during the year, the largest supplier accounted for 10% of the Group's purchases and the five largest suppliers accounted for 24% of the Group's total purchases. The largest customer accounted for 27% of the Group's turnover and the five largest customers accounted for 62% of the Group's total turnover.

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 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.

EMPLOYEES

The total number of employees of the Group is approximately 2,500. The remuneration of each employee of the Group is determined on the basis of his or her performance and experience. The Group provides education allowances to all the employees.

PRE-EMPTIVE RIGHTS

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

AUDITORS

Messrs. Deloitte Touche Tohmatsu, who acted as auditors of the Company for the preceding three years, retired and Messrs. HLM & Co. were appointed as auditors of the Company for the year ended 31st December, 2003, as approved at the Company's annual general meeting held on 20th May, 2003. A resolution will be submitted at the forthcoming annual general meeting to re-appoint Messrs. HLM & Co. as the auditors of the Company.

On behalf of the Board

Leung Siu Fai
CHAIRMAN

Hong Kong, 15th April, 2004