

Report of the Directors

The Directors are pleased to present their annual report and the audited financial statements of the Group and the Company for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2003 are set out in notes 43, 44 and 45 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 21 and in the accompanying notes to the financial statements.

The Directors do not recommend the payment of a final dividend.

FIXED ASSETS

During the year, the Group spent HK\$8,765,000 on fixed assets, and acquired a further HK\$33,000,000 of fixed assets on the acquisition of a subsidiary. In addition, certain of the Group's properties held for sale with a carrying value of HK\$252,102,000 were transferred to investment properties. The Group also disposed of certain of its fixed assets with a net carrying value of HK\$433,000.

The Group's investment properties were revalued on 31st December, 2003 at HK\$2,256,073,000. The net revaluation deficit of HK\$5,645,000 has been charged to the income statement.

Details of these and other movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

The Group has invested in certain property development projects in Hong Kong and the United States of America. Additional expenditure incurred during the year amounted to HK\$14,939,000. An impairment loss of HK\$12,200,000 has been recognised in respect of these properties.

Details of these and other movements in the properties under development of the Group during the year are set out in note 16 to the financial statements.

PROPERTIES

Particulars of major properties of the Group at 31st December, 2003 are set out on pages 87 and 88.

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital and warrants of the Company during the year are set out in notes 25 and 26 to the financial statements respectively.

SHARE OPTION SCHEME

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

DIRECTORS

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

Executive Directors:

Patrick S. W. Lee

Li Chi Kong

Independent Non-Executive Directors:

Gordon Macwhinnie

Henry Lai Hin Wing

John Douglas Mackie (appointed on 1st February, 2004)

In accordance with Article 105(A) of the Company's Articles of Association, Sir Gordon Macwhinnie will retire by rotation and, being eligible, offer himself for re-election.

In accordance with Article 96 of the Company's Articles of Association, Mr. John Douglas Mackie, who has been appointed since the last Annual General Meeting and before the date of this report, will retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-appointment as Director.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

TERMS OF OFFICE FOR THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The terms of office of the Independent Non-Executive Directors are subject to re-appointment or retirement by rotation in accordance with Articles 96 and 105(A) of the Company's Articles of Association.

DIRECTORS' INTERESTS

At 31st December, 2003, Messrs. Patrick S. W. Lee and Li Chi Kong, Directors of the Company, had the following interests in the shares and underlying shares of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept under Section 352 of the SFO:

Name of Director	Name of Company	Number of shares and underlying shares held	Approximate % of the relevant issued share capital	Nature of interest
Patrick S. W. Lee	The Company	297,000 (Note 1)	0.06%	Personal interest (held as beneficial owner)
	Allied Group (Note 2)	5,500,000 (Note 3)	0.20%	Personal interest (held as beneficial owner)
Li Chi Kong	SAC (Note 2)	600,000 (Note 4)	0.08%	Personal interest (held as beneficial owner)

Notes:

- The interest includes the holding of 270,000 shares (representing approximately 0.055% of the issued share capital) and 27,000 warrants of the Company giving rise to an interest in 27,000 underlying shares (representing approximately 0.005% of the issued share capital) of the Company. The warrants were issued on 3rd December, 2003 and are exercisable at an initial subscription price of HK\$2.50 per share, subject to adjustment, at any time during the period from 5th December, 2003 to 6th December, 2004 (both days inclusive).
- Allied Group is the ultimate holding company of the Company. Allied Group and SAC are associated corporations of the Company within the meaning of Part XV of the SFO.
- This represents an interest in 5,500,000 shares of Allied Group.
- This represents an interest in 600,000 share options of SAC giving rise to an interest in 600,000 underlying shares of SAC. The share options were granted on 28th July, 2003 at a consideration of HK\$10.00 and are exercisable at an exercise price of HK\$0.70 at any time during the period from 28th January, 2004 to 27th July, 2013 (both days inclusive).
- All interests stated above represent long positions.

Save as disclosed above, at 31st December, 2003, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept under 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, Messrs. Patrick S. W. Lee and Li Chi Kong, Directors of the Company (not being the Independent Non-Executive Directors), are considered to have interests in the following competing businesses pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"):

- (i) Mr. Li Chi Kong is a director of AG Capital Limited, a subsidiary of Allied Group, which is partly engaged in the business of money lending;
- (ii) Mr. Patrick S. W. Lee is a director of Sun Hung Kai which, through certain of its subsidiaries, is partly engaged in the businesses of money lending and property investment;
- (iii) Messrs. Patrick S. W. Lee and Li Chi Kong are directors of Tian An which, through a subsidiary, is partly engaged in the business of money lending; and
- (iv) Messrs. Patrick S. W. Lee and Li Chi Kong are directors of Allied Kajima which, through certain of its subsidiaries, is partly engaged in the businesses of property rental, management services and hospitality related activities.

As the Board of Directors of the Company is independent from the boards of the abovementioned companies and none of the above Directors can control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its holding company, or any of its fellow subsidiaries or subsidiaries was a party and in which the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or any of its fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate with the exception of granting of share options to subscribe for shares in the Company and its ultimate holding company, Allied Group, under their respective share option schemes.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 31st December, 2003, the following shareholders had an interest 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 of Shareholder	Number of shares and underlying shares held	Approximate % of the issued share capital	Notes
Allied Group	401,394,059	82.02%	1, 2, 3
Lee and Lee Trust	401,394,059	82.02%	4, 5

Notes:

- The interest includes the holding of: (i) 167,061,619 shares or underlying shares held by Capscore Limited ("Capcore"); (ii) 4,186,632 shares or underlying shares held by Citiwealth Investment Limited ("Citiwealth"); (iii) 133,807,783 shares or underlying shares held by Sunhill Investments Limited ("Sunhill"); and (iv) 96,338,025 shares or underlying shares held by Allied Group.
- Capcore, Citiwealth and Sunhill are all wholly-owned subsidiaries of Allied Group. Allied Group was therefore deemed to have an interest in the shares and underlying shares in which Capcore, Citiwealth and Sunhill were interested.
- The interest includes the holding of 365,144,329 shares (representing approximately 74.61% of the issued share capital) and 36,249,730 warrants of the Company giving rise to an interest in 36,249,730 underlying shares (representing approximately 7.41% of the issued share capital) of the Company.
- The figure refers to the same interest of Allied Group in 401,394,059 shares and underlying shares of the Company.
- Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust, being a discretionary trust, who together owned approximately 38.35% interest of the issued share capital of Allied Group. They were therefore deemed to have an interest in the shares and underlying shares in which Allied Group was interested.
- The interest stated above represents long position.

Save as disclosed above, the Company had not been notified of any other person who had an interest or a short position in any shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO at 31st December, 2003.

CONNECTED TRANSACTION

As disclosed in the joint announcement of the Company and Allied Group dated 30th December, 2003, a tenancy agreement ("Tenancy Agreement") was entered into on 24th December, 2003 between Hillcrest Development Limited, a wholly-owned subsidiary of the Company, as the landlord and Allied Group, the controlling shareholder of the Company, as the tenant for the renewal of a lease of 60 Plantation Road, The Peak, Hong Kong for a term of two years commencing from 1st January, 2004 to 31st December, 2005 at a monthly rental of HK\$200,000 (exclusive of rates and management fee). The rental was based on the prevailing market rental as reviewed by an independent firm of international property consultants. The Directors (including the Independent Non-Executive Directors) of the Company were of the view that the terms and conditions of the Tenancy Agreement were fair and reasonable so far as the shareholders of the Company were concerned.

CONNECTED TRANSACTION (CONT'D)

As Allied Group is the controlling shareholder and ultimate holding company of the Company, the Tenancy Agreement constitutes a connected transaction of the Company.

The above connected transaction is not subject to shareholders' approval under Rule 14.25(1) of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DONATIONS

The Group made charitable donations of HK\$124,000 during the year.

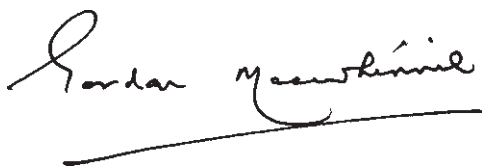
CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board



Sir Gordon Macwhinnie

Chairman

Hong Kong, 15th April, 2004