

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 activities of the Company's principal subsidiaries and associates are set out in notes 31 and 17 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 12.

The directors do not recommend the payment of a dividend in respect of the year.

INVESTMENT PROPERTIES

During the year, the Group acquired an investment property at a cost of approximately HK\$3 million and disposed of an investment property with a carrying amount of approximately HK\$78 million.

All the investment properties of the Group were revalued at 31st December, 2003. The resulting net increase arising on revaluation amounted to HK\$19 million, which, after adjusting for minority interests, has been credited to the investment property revaluation reserve.

Details of this and other movements during the year in the investment properties of the Group are shown in note 13 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

During the year, additions to properties under development amounted to approximately HK\$270 million which includes an acquisition of a land site for a consideration of HK\$230 million.

Details of these and other movements during the year in the properties under development of the Group are set out in note 15 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The Group's hotel property and furnished suites were revalued at 31st December, 2003.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31st December, 2003 are set out on pages 48 and 49 of the Annual Report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 22 to the financial statements. There were no movements in the share capital of the Company during the year.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 23 to the financial statements.

BORROWINGS

Bank loans and other borrowings repayable within one year are classified as current liabilities in the financial statements. An analysis of the repayment schedule of non-current borrowings is set out in note 24 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

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. William Cheng Kai Man
Mr. Jim Wong Tin Yue
Mr. Albert Hui Wing Ho

Non-executive directors

Ms. Mabel Lui Fung Mei Yee*
Mr. Vincent Kwok Chi Sun*
Mr. David Cheng Kai Ho

* independent non-executive directors

In accordance with the provisions of the Company's Articles of Association, Mr. William Cheng Kai Man and Ms. Mabel Lui Fung Mei Yee shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office for each of the non-executive directors is the period up to his or her retirement by rotation in accordance with the Company's Articles of Association.

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).

DIRECTORS' INTERESTS IN LISTED SECURITIES

As at 31st December, 2003, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be entered in the register required to be kept by the Company under section 352 of the SFO; or (b) to be 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:

The Company

Name of director	Capacity	Nature of interests	Number of shares held	Approximate % of shareholding
William Cheng Kai Man	Interest of controlled corporations	Corporate	350,628,682 (Note)	65.3

Note:

Omnico Company Inc., Trillion Resources Limited and Mercury Fast Limited beneficially owned 266,705,937 shares, 183,235 shares and 83,739,510 shares of the Company respectively, representing 49.7%, 0.03% and 15.6% respectively of the issued share capital of the Company. Mr. William Cheng Kai Man has controlling interests in each of these three companies.

Associated corporations

Name of director	Name of associated corporation	Capacity	Nature of interests	Number of shares held	Approximate % of shareholding
William Cheng Kai Man	Magnificent Estates Limited (Note 1)	Interest of controlled corporations	Corporate	3,783,383,239	69.2
William Cheng Kai Man	Shun Ho Resources Holdings Limited (Note 2)	Interest of controlled corporations	Corporate	216,608,825	71.2
William Cheng Kai Man	Trillion Resources Limited (Note 3)	Beneficial owner	Personal	1	100

Notes:

1. Magnificent Estates Limited, the Company's subsidiary, is a public limited company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange.
2. Shun Ho Resources Holdings Limited, the Company's holding company, is a public limited company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange.
3. Trillion Resources Limited, the Company's ultimate holding company, is a company incorporated in the British Virgin Islands.

Directors' Report (Continued)

Share Options

The Company and Magnificent Estates Limited ("Magnificent") respectively adopted a Share Option Scheme for Employees on 30th June, 1990 and 27th September, 1990 for the primary purpose of providing incentives to directors and employees. These schemes lapsed on 30th June, 2000 and 27th September, 2000 respectively.

In relation to the schemes, no share option was granted to any employees, suppliers or other participants during the year. Particulars of outstanding share options at the beginning and end of the year were as follows:

Name of director	Exercise price HK\$	Date of grant	Exercisable period From	To	Number of Shares under options granted			
					Outstanding at 1/1/2003	Cancelled during the year	Outstanding at 31/12/2003	
The Company								
William Cheng Kai Man	1.11	19/10/1993	20/10/1993	19/10/2003	5,374,691	5,374,691	-	
Magnificent								
William Cheng Kai Man	0.20	29/6/1994	30/6/1994	29/6/2004	43,799,524	43,799,524	-	

No option was granted, exercised or lapsed during the year.

Save as disclosed above and save for shares in subsidiaries held by a director in trust for their immediate holding companies, as at 31st December, 2003, none of the directors or chief executive of the Company had any interests or short positions 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) which were required (a) to be entered in the register required to be kept by the Company under section 352 of the SFO; or (b) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies and none of the directors or their associates or their spouse or children under the age of 18, had any right to subscribe for the securities of the Company or associated corporations, or had exercised any such right during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

During the year, the Group had transactions with certain related parties, details of which are set out in note 29 to the financial statements.

In addition, the Company and its subsidiaries had the following transactions with Magnificent group of companies:

- (i) A property owned by a subsidiary of the Company was let to Magnificent. The net rental received from Magnificent for the year, which was mutually agreed, amounted to HK\$1,040,000.
- (ii) During the year, the Company made unsecured advances to Magnificent and its subsidiary which carry interest chargeable at HIBOR plus 1% per annum and are repayable on demand. At 31st December, 2003, such advances amounted to HK\$51,732,000 remained outstanding. Interest receivable by the Company on such advances amounted to a total of HK\$1,094,000 in respect of the year.

At 31st December, 2003 the Group had trade balance due to Magnificent amounted to HK\$476,000 which was unsecured, interest free and repayable on demand.
- (iii) During the year, the Company and its subsidiary had exercised 629,350,706 units of warrants issued by Magnificent. Details of the warrants are set out in note 22.
- (iv) During the year, expenses amounted to HK\$1,532,000 were payable by the Company to Magnificent for administrative services provided by Magnificent on a cost reimbursement basis.

Directors' Report (Continued)

- (v) During the year, income from provision of portal site services of HK\$288,000 was charged by a subsidiary of the Company to Magnificent group of companies based on terms mutually agreed by the parties concerned.

Save as disclosed herein:

- (i) no contracts of significance subsisted at any time during the year to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Amongst the directors who held office during the year, Mr. William Cheng Kai Man was interested indirectly, in the share capital of Shun Ho Resources, Magnificent and the Company. Mr. Jim Wong Tin Yue and Mr. Albert Hui Wing Ho were interested directly in the share capital of Shun Ho Resources.

In the opinion of the directors not having an interest in those transactions, those transactions were carried out in the ordinary course of the Group's business on normal commercial terms.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries were entered into during the year or subsisted at the end of the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchases and sales attributable to the five largest suppliers and customers of the Group accounted for less than 30% in aggregate of the Group's total purchases and sales respectively.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the following persons (not being directors or chief executive of the Company) had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity	Number of shares	Approximate % of shareholding
Mercury Fast Limited ("Mercury")	Beneficial owner	83,739,510	15.6
Magnificent Estates Limited ("Magnificent") (Note 1)	Interest of controlled corporation	83,739,510	15.6
Omnico Company Inc. ("Omnico") (Note 2)	Beneficial owner and interest of controlled corporation	350,445,447	65.3
Shun Ho Resources Holdings Limited ("Shun Ho Resources") (Note 3)	Interest of controlled corporation	350,628,682	65.3
Trillion Resources Limited ("Trillion") (Note 3)	Interest of controlled corporation	350,628,682	65.3
Liza Lee Pui Ling (Note 4)	Interest of spouse	350,628,682	65.3

Notes:

- Mercury is a wholly-owned subsidiary of Magnificent.
- Omnico beneficially owned 266,705,937 shares of the Company (the "Shares") and was taken to be interested in 83,739,510 Shares held by Mercury which is owned as to 100% by Magnificent, which is in turn owned as to 69.2% by the Company, which is in turn directly and indirectly owned as to 65.3% by Omnico.
- Omnico is wholly-owned by Shun Ho Resources, which is in turn directly and indirectly owned as to 71.2% by Trillion, which is in turn wholly-owned by Mr. William Cheng Kai Man. So, Shun Ho Resources and Trillion were taken to be interested in 350,628,682 Shares by virtue of their direct and indirect interests in Omnico.
- Madam Liza Lee Pui Ling was deemed to be interested in 350,628,682 Shares by virtue of the interest in such Shares of her spouse, Mr. William Cheng Kai Man, a director of the Company.

Directors' Report *(Continued)*

Save as disclosed above, there was no person, other than a director or chief executive of the Company, who has an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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.

AUDITORS

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

On behalf of the Board

William CHENG Kai Man
Chairman of the Meeting

Hong Kong, 19th April, 2004