

The directors have pleasure in presenting to the shareholders their report together with the audited financial statements for the year ended 31st December 2002.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries, jointly controlled entities and associated companies are set out in note 35 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2002 are set out on page 37 of the annual report. An interim scrip dividend equivalent to 1 cent (2001: 1.5 cents) per share with a cash option, totalling HK\$12,397,000 (2001: HK\$17,910,000) was paid during the year. The directors recommend a final scrip dividend of 1 cent (2001: 2.5 cents) per share with a cash option, totalling HK\$12,432,000 (2001: HK\$30,446,000). Full details of the scrip dividend will be set out in a letter to be sent to the shareholders.

## SHARE CAPITAL

Details of shares issued as at 31st December 2002 are set out in note 23 to the financial statements.

On 10th July 2002, 21,784,565 new shares were issued at a price of HK\$0.6308 as the final dividend for the year ended 31st December 2001 to shareholders who had not made cash elections in respect of all of their shareholdings.

On 22nd November 2002, 3,552,846 new shares were issued at a price of HK\$0.4019 as the 2002 interim dividend to shareholders who had not made cash elections in respect of all of their shareholdings.

During the year, 200,000 new shares were issued at the option price of HK\$0.5333 per share and 930,000 new shares were issued at the option price of HK\$0.5216 per share pursuant to a share option scheme of the Company as a result of the exercise of share options by option holders.

On 28th February 2003, options to subscribe for 20,482,000 shares at the option price of HK\$0.514 per share were granted to directors, employees and adviser of the Company and its affiliates pursuant to the Share Option Scheme of the Company adopted on 30th May 2002.

The Company has not redeemed any of its shares during the year ended 31st December 2002. Neither the Company nor any of its subsidiary companies have purchased or sold any of the Company's shares during the year ended 31st December 2002.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

## DONATIONS

During the year, the Group made charitable donations amounted to HK\$560,000.

## FIXED ASSETS

Details of the movements in fixed assets are set out in note 13 to the financial statements.

## DIRECTORS

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

Lui Che Woo  
 Francis Lui Yiu Tung  
 Chan Kai Nang (appointed on 14th January 2003)  
 Paddy Tang Lui Wai Yu  
 Chan Nai Keong  
 Charles Cheung Wai Bun  
 Moses Cheng Mo Chi  
 Yip Hing Chung  
 Albert To Tak Pui (resigned on 15th December 2002)

The biographical details of the directors and senior management are set out on pages 24 to 26 of the annual report.

In accordance with Article 106(A), Mr. Francis Lui Yiu Tung, Dr. Chan Nai Keong and Mr. Moses Cheng Mo Chi will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In accordance with Article 97, Mr. Chan Kai Nang shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

None of the directors proposed for re-election has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

## DISCLOSURE OF INTERESTS

At 31st December 2002, the interests of each director in the shares of the Company and its associated corporation, K. Wah International Holdings Limited, and the details of any right to subscribe for shares of the Company and K. Wah International Holdings Limited and of the exercise of such rights, as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (A) Ordinary Shares of the Company

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Lui Che Woo	7,654,169	1,390,101	72,776,007 <sup>(1)</sup>	842,942,994 <sup>(2)</sup>	924,763,271
Francis Lui Yiu Tung	2,822	—	—	842,942,994 <sup>(2)</sup>	842,945,816
Paddy Tang Lui Wai Yu	1,861,906	—	—	842,942,994 <sup>(2)</sup>	844,804,900
Chan Nai Keong	55,576	—	—	—	55,576
Charles Cheung Wai Bun	1,810	—	—	—	1,810
Moses Cheng Mo Chi	—	—	—	—	—
Yip Hing Chung	184,512	—	—	—	184,512

## DISCLOSURE OF INTERESTS (Cont'd)

### (B) Share Options of the Company

Details are set out in the SHARE OPTION SCHEME section below.

### (C) Ordinary Shares of K. Wah International Holdings Limited

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Lui Che Woo	253,664	6,748,431	33,197,511 <sup>(3)</sup>	1,193,630,181 <sup>(2)</sup>	1,233,829,787
Francis Lui Yiu Tung	379,804	—	—	1,193,630,181 <sup>(2)</sup>	1,194,009,985
Paddy Tang Lui Wai Yu	4,639,166	—	—	1,193,630,181 <sup>(2)</sup>	1,198,269,347
Chan Nai Keong	165,015	—	—	—	165,015
Charles Cheung Wai Bun	7,239	—	—	—	7,239
Moses Cheng Mo Chi	—	—	—	—	—
Yip Hing Chung	—	—	—	—	—

### (D) Share Options of K. Wah International Holdings Limited

	Number Outstanding at 31st December 2002	Number Exercised during the year
Lui Che Woo	2,850,000	—
Francis Lui Yiu Tung	2,200,000	—
Paddy Tang Lui Wai Yu	1,470,000	—
Chan Nai Keong	735,000	—
Charles Cheung Wai Bun	—	—
Moses Cheng Mo Chi	—	—
Yip Hing Chung	—	—

Notes:

- (1) 72,776,007 shares in the Company were held by Best Chance Investments Ltd., which was controlled by Dr. Lui Che Woo.
- (2) K. Wah International Holdings Limited was interested in 839,207,435 shares in the Company representing more than one-third of its issued share capital held by a wholly owned subsidiary of K. Wah International Holdings Limited. 1,193,630,181 shares in K. Wah International Holdings Limited representing more than one-third of its issued share capital were held by the discretionary trusts. In addition, a discretionary trust was interested in 3,735,559 shares in the Company. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the discretionary family trusts, are deemed to be interested in those shares in K. Wah International Holdings Limited held by the trusts and in those shares in the Company in which K. Wah International Holdings Limited was interested as aforesaid.
- (3) 33,197,511 shares in K. Wah International Holdings Limited were held by Best Chance Investments Ltd., which was controlled by Dr. Lui Che Woo.

## SUBSTANTIAL SHAREHOLDERS

At 31st December 2002, the interest of every person (not being a director or chief executive of the Company) having an interest in 10% or more of the issued share capital of the Company as recorded in the register kept under section 16(1) of the SDI Ordinance were as follows:

Name	Number of Ordinary Shares
Sutimar Enterprises Limited	839,207,435 (Note 1)
K. Wah International Holdings Limited	839,207,435 (Note 1)
HSBC Holdings plc	847,375,354 (Note 2)
HSBC Bank plc	842,969,433 (Note 2)
Midcorp Limited	842,969,433 (Note 2)
Griffin International Limited	842,969,433 (Note 2)
HSBC Europe BV	842,969,433 (Note 2)
HSBC Europe (Netherlands) BV	842,969,433 (Note 2)
HSBC Private Banking Holdings (Suisse) SA	842,969,433 (Note 2)
HSBC International Trustee Limited	842,969,433 (Note 2)

Notes:

1. K. Wah International Holdings Limited is deemed to be interested in the 839,207,435 shares in the Company held by Sutimar Enterprises Limited since it owns all of the issued share capital of Sutimar Enterprises Limited.
2. HSBC International Trustee Limited is the trustee of discretionary trusts which hold 842,969,433 shares in the Company. Each of HSBC Holdings plc, HSBC Bank plc, Midcorp Limited, Griffin International Limited, HSBC Europe BV, HSBC Europe (Netherlands) BV and HSBC Private Banking Holdings (Suisse) SA are deemed to be interested in the 842,969,433 shares in the Company held by HSBC International Trustee Limited, being a wholly owned subsidiary within the HSBC Group. In addition, HSBC Holdings plc is also interested in 4,405,921 shares held by its subsidiary, Hang Seng Bank Limited.

There was duplication of interest of:

- (i) 842,942,994 shares in the Company between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, HSBC Holdings plc, HSBC Bank plc, Midcorp Limited, Griffin International Limited, HSBC Europe BV, HSBC Europe (Netherlands) BV, HSBC Private Banking Holdings (Suisse) SA and HSBC International Trustee Limited. Among these shares, 839,207,435 shares were also interested by Sutimar Enterprises Limited and K. Wah International Holdings Limited; and
- (ii) 1,193,630,181 shares in K. Wah International Holdings Limited between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

So far as was known to any director or chief executive of the Company, save as disclosed herein, there was no other person who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company.

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

## SHARE OPTION SCHEME

The share option scheme of the Company ("Share Option Scheme") was approved and adopted by the shareholders at the annual general meeting held on 30th May 2002 ("Adoption Date"). The Share Option Scheme was also approved by the shareholders of K. Wah International Holdings Limited ("KWIH") at the annual general meeting of KWIH held on the Adoption Date. A summary of the Share Option Scheme is set out below:

### (1) Purpose

To attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of option holders to shareholders.

### (2) Participants

- (i) any employee of the Company or any affiliate and any senior executive or director of the Company or any affiliate; or
- (ii) any consultant, agent, representative or adviser of the Company or any affiliate; or
- (iii) any person who provides goods or services to the Company or any affiliate; or
- (iv) any customer or contractor of the Company or any affiliate; or
- (v) any business ally or joint venture partners of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

"Affiliate" means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

### (3) Total number of shares available for issue

- (i) **Mandate Limit** — Subject to paragraph (3)(ii) below, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares in issue as at the Adoption Date, being 121,787,040 shares.
- (ii) **Overriding Limit** — The Company may by ordinary resolutions of the shareholders and by ordinary resolutions of the shareholders of KWIH refresh the Mandate Limit as referred to in paragraph (3)(i) above provided the Company and KWIH shall issue a circular to their respective shareholders before such approval is sought. The overriding limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

## **SHARE OPTION SCHEME** *(Cont'd)*

### **(3) Total number of shares available for issue** *(Cont'd)*

- (iii) As at 31st December 2002, the total number of shares available for issue under the Share Option Scheme was 121,787,040 shares, which represented approximately 9.80% of the issued share capital of the Company at that date.

### **(4) Maximum entitlement of each participant**

The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the shares in issue.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided the Company shall issue a circular to shareholders before such approval is sought, and separate approval by the shareholders of KWIH in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided KWIH shall issue a circular to shareholders before such approval is sought, the Company may grant options to a participant which would exceed this limit.

### **(5) Option period**

The period within which the shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

### **(6) Minimum period for which an option must be held before it can vest**

The minimum period, if any, for which an option must be held before it can vest shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

### **(7) Payment on acceptance of the option**

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of grant (or such longer period as the Board may specify in writing).

### **(8) Basis of determining the subscription price**

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the higher of:

- (i) the closing price of the shares on the date of grant;
- (ii) the average closing prices of the shares for the 5 business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

### **(9) The remaining life of the Share Option Scheme**

The life of the Share Option Scheme is 10 years commencing on the Adoption Date and will expire on 29th May 2012.

**SHARE OPTION SCHEME** (Cont'd)

Particulars of the options held by each of the directors of the Company and the employees granted under the Share Option Scheme or under any other share option schemes of the Company are as follows:

	Date of grant	Options held at 1st January 2002	Options granted during year	Options exercised during year	Options held at 31st December 2002	Exercise price (HK\$)	Exercise period
Lui Che Woo	20th May 1998	1,500,000	—	—	1,500,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,800,000	—	—	1,800,000	0.5216	30th Dec 2000 – 29th Dec 2009
Francis Lui Yiu Tung	20th May 1998	1,000,000	—	—	1,000,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,600,000	—	—	1,600,000	0.5216	30th Dec 2000 – 29th Dec 2009
Paddy Tang Lui Wai Yu	20th May 1998	600,000	—	—	600,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,070,000	—	—	1,070,000	0.5216	30th Dec 2000 – 29th Dec 2009
Chan Nai Keong	20th May 1998	300,000	—	—	300,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	536,000	—	—	536,000	0.5216	30th Dec 2000 – 29th Dec 2009
Charles Cheung Wai Bun	—	—	—	—	—	—	—
Moses Cheng Mo Chi	—	—	—	—	—	—	—
Yip Hing Chung	—	—	—	—	—	—	—
Employees	20th May 1998	9,762,000	—	200,000 (Note 1)	9,562,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	21,226,000	—	930,000 (Note 2)	20,296,000	0.5216	30th Dec 2000 – 29th Dec 2009

## SHARE OPTION SCHEME (Cont'd)

### Notes:

1. Exercise date was 25th April 2002. At the date before the options were exercised, the closing price per share was HK\$0.65.
2. For 50,000 options, exercise date was 8th March 2002. At the date before the options were exercised, the closing price per share was HK\$0.59.  
  
For 650,000 options, exercise date was 25th April 2002. At the date before the options were exercised, the closing price per share was HK\$0.65.  
  
For 180,000 options, exercise date was 9th May 2002. At the date before the options were exercised, the closing price per share was HK\$0.70.  
  
For 50,000 options, exercise date was 10th May 2002. At the date before the options were exercised, the closing price per share was HK\$0.69.

All options referred to above are subject to a one-year vesting period.

Except for the Share Option Scheme, at no time during the year was the Company, its subsidiary companies, its fellow subsidiary companies or its holding companies 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.

## CONNECTED TRANSACTION

On 22nd July 2002, a conditional loan agreement was entered into between Brighten Lion Limited, an indirect wholly-owned subsidiary of the Company, as the Lender and Great Place Developments Limited, an indirect wholly-owned subsidiary of K. Wah International Holdings Limited ("KWIH"), as the Borrower whereby a guaranteed unsecured revolving loan facility of up to HK\$330,000,000 was granted by the Lender to the Borrower.

The transaction was a connected transaction for the Company under the Listing Rules. Details of the transaction were included in the press announcement jointly made by the Company and KWIH on 22nd July 2002 and the circular of the Company dated 5th August 2002. The transaction was approved by the Independent Shareholders of the Company at the Extraordinary General Meeting held on 22nd August 2002.

## FINANCIAL SUMMARY

A five year financial summary of the results and of the assets and liabilities of the Group is shown on pages 22 and 23 of the annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2002, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represents less than 30% of the Group's total purchases.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in the five largest customers.



## MANAGEMENT CONTRACTS

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

## AUDITORS

The financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board

**Francis Lui Yiu Tung**

*Deputy Chairman*

Hong Kong, 9th April 2003