

The Directors submit their report together with the audited accounts for the year ended 31st December 2002.

Principal activities

The principal activities of the Company during the year are investment holding of four major businesses: properties, toll roads, paper and cement (discontinued operation). The principal activities of its principal subsidiaries, jointly controlled entities, associated companies are set out in the Group Structure section on pages 80 to 94.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 28.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the accounts.

Donations

Charitable donations made by the Group during the year amounted to HK\$185,823.

Fixed assets

Details of the movements in fixed assets of the Group and the Company are set out in note 15 to the accounts.

Major property projects

Details of the major property projects held for/under development, for sale and for investment purposes of the Group in Guangzhou Municipality are set out in the List of Major Property Projects in Guangzhou Municipality section on pages 100 to 103.

Share capital

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

Convertible bonds

Details of the movements in convertible bonds of the Group and the Company during the year are set out in note 30 to the accounts.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the Hong Kong Companies Ordinance.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below.

	Year ended 31st December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Results					
(Loss)/profit attributable to shareholders	<u>(989,041)</u>	<u>39,782</u>	<u>53,582</u>	<u>(138,713)</u>	<u>100,288</u>
Assets and liabilities					
Total assets	23,545,737*	19,961,555	19,604,175	19,402,347	18,886,961
Total liabilities including minority interests	<u>(16,529,192)</u>	<u>(13,431,017)</u>	<u>(13,118,629)</u>	<u>(12,773,252)</u>	<u>(12,343,091)</u>
Net assets	<u>7,016,545*</u>	<u>6,530,538</u>	<u>6,485,546</u>	<u>6,629,095</u>	<u>6,543,870</u>
* If negative goodwill of approximately HK\$3.8 billion is excluded, total assets and net assets would be HK\$27,369,112,000 and HK\$10,839,920,000 respectively.					

Purchase, sale and redemption of the Company's 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.

Interest capitalised

During the year, interest capitalised as development cost in respect of properties held for/under development and associated companies amounted to approximately HK\$20,062,000.

Distributable reserves

As at 31st December 2002, the distributable reserves of the Company available for distribution amounted to HK\$313,225,000 (2001: HK\$43,642,000).

Directors

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

Mr Ou Bingchang	- appointed on 8th January 2003
Mr Liu Jinxiang	- resigned on 8th January 2003
Mr Xie Shuwen	
Mr Chen Guangsong	
Mr Li Fei	- appointed on 18th January 2002
Mr Liang Ningguang	
Mr Xiao Boyan	
Mr Liang Yi	- appointed on 28th February 2003
Mr Cai Hanxiang	- resigned on 19th September 2002
Mr Luo Guoqing	- appointed on 18th January 2002
Mr Dong Huiyan	- resigned on 28th February 2003
Mr Li Jiaqiang	- resigned on 28th February 2003
Mr Shi Jinling	- resigned on 28th February 2003
Mr Yin Hui	
Mr Wu Yiyue	- resigned on 28th February 2003
Mr Wang Hongtao	- appointed on 18th January 2002 and resigned on 28th February 2003
Mr Wong Chi Keung	
Ms Yan Yuk Fung	
Mr Yu Lup Fat Joseph*	
Mr Lee Ka Lun*	

* *Independent non-executive directors*

Messrs Xiao Boyan, Wong Chi Keung, Yu Lup Fat Joseph and Lee Ka Lun retire by rotation in accordance with Article 91 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Messrs Ou Bingchang and Liang Yi retire in accordance with Article 97 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors' Profiles are set out on pages 13 and 14.

Messrs Ou Bingchang, Li Fei and Liang Yi are directors of Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), the controlling shareholder of the Company who beneficially owned an aggregate of approximately 63.2 per cent of the issued share capital of the Company. Mr Xie Shuwen is a director of Yue Xiu, Excellence Enterprises Co., Ltd. and Bosworth International Limited. Messrs Chen Guangsong and Xiao Boyan are directors of Yue Xiu and Excellence Enterprises Co., Ltd. Mr Liang Ningguang is a director of Excellence Enterprises Co., Ltd. and Bosworth International Limited. Mr Wong Chi Keung is a director of Bosworth International Limited. Each of Yue Xiu, Excellence Enterprises Co., Ltd. and Bosworth International Limited has an interest in the share capital of the Company as disclosed under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") which was replaced by the Securities and Futures Ordinance with effect from 1st April 2003.

Report of the Directors

Directors' service contracts

Each of Messrs Xie Shuwen, Chen Guangsong, Ou Bingchang and Liang Yi had entered into a service agreement with GZI Transport Limited ("GZT"), a subsidiary of the Company, which is for an initial fixed term of one year commencing on 12th September 2001, 26th October 2001, 8th January 2003 and 28th February 2003 respectively unless terminated sooner by GZT giving to the relevant Director three months' prior written notice and thereafter, extendable for a further term of two years unless terminated sooner by GZT giving to the relevant Director three months' prior written notice or by the relevant Director giving to GZT six months' prior written notice.

Save as disclosed herein, none of the directors of the Company has a service contract with the Company which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its fellow subsidiaries was a party and in which any 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.

Connected transactions

Significant related party transactions, which also constitute as connected transactions under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), required to be disclosed in accordance with Chapter 14 of the Listing Rules, are disclosed in notes 2, 35(b) and 37(a) to (c) to the accounts. In respect of transactions disclosed in notes 37(a) and (b) to the accounts, Messrs Yu Lup Fat Joseph and Lee Ka Lun, the independent non-executive directors of the Company, have confirmed that the transactions have been performed in accordance with the terms of the agreements covering such transactions.

The auditors of the Company also confirmed in its letter to the Directors that the transactions disclosed in notes 37(a) and (b) to the accounts (i) have received the approval of the board of directors; (ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iii) have not exceeded the cap for the transaction disclosed in note 37(a) to the accounts.

Directors' interests in equity or debt securities

As at 31st December 2002, the interests of the directors of the Company in the equity or debt securities of the Company and its subsidiary, GZT, as recorded in the register maintained under Section 29 of the SDI Ordinance were as follows:

	Personal Interests
The Company	
(Ordinary shares of HK\$0.10 each)	
Mr Xie Shuwen	300,000
Mr Luo Guoqing	10,000
Mr Wang Hongtao	300,000
Mr Wong Chi Keung	500,000
Ms Yan Yuk Fung	500,000
GZT	
(Ordinary shares of HK\$0.10 each)	
Mr Yin Hui	530,000
Mr Wong Chi Keung	158,000
Ms Yan Yuk Fung	100,000

As at 31st December 2002, the following directors of the Company had interests recorded in the register maintained under Section 29 of the SDI Ordinance being options granted under the share option schemes of (i) the Company and (ii) GZT to subscribe for ordinary shares in the respective companies:

(i) **The Company**

Name of Director	Date of grant	Exercise price per share HK\$	Number of options				
			outstanding as at 1st January 2002	lapsed during the year (a)	exercised during the year	weighted average closing price (d) HK\$	outstanding as at 31st December 2002
Mr Liu Jinxiang	14/12/1999	0.5008 (b)	1,040,000	—	900,000 (c)	0.70	140,000 (e)
Mr Xie Shuwen	23/02/1998	0.7344	1,000,000	1,000,000	—	N/A	—
	14/12/1999	0.5008 (b)	700,000	—	—	N/A	700,000
Mr Liang Ningguang	23/02/1998	0.7344	1,000,000	1,000,000	—	N/A	—
	14/12/1999	0.5008 (b)	840,000	—	—	N/A	840,000 (f)
Mr Xiao Boyan	23/02/1998	0.7344	1,000,000	1,000,000	—	N/A	—
	14/12/1999	0.5008 (b)	700,000	—	—	N/A	700,000
Mr Cai Hanxiang *	14/12/1999	0.5008 (b)	700,000	—	—	N/A	N/A
Mr Dong Huiyan	23/02/1998	0.7344	1,000,000	1,000,000	—	N/A	—
	14/12/1999	0.5008 (b)	700,000	—	—	N/A	700,000
Mr Li Jiaqiang	23/02/1998	0.7344	1,000,000	1,000,000	—	N/A	—
	14/12/1999	0.5008 (b)	700,000	—	—	N/A	700,000
Mr Shi Jinling	14/12/1999	0.5008 (b)	1,000,000	—	—	N/A	1,000,000
Mr Wang Hongtao	14/12/1999	0.5008 (b)	800,000	—	—	N/A	800,000
Mr Wong Chi Keung	14/12/1999	0.5008 (b)	700,000	—	—	N/A	700,000
Ms Yan Yuk Fung	14/12/1999	0.5008 (b)	800,000	—	—	N/A	800,000

Notes:

- (a) The share options were expired on 20th November 2002.
- (b) The share options are exercisable from the first anniversary of the date of grant to the business day preceding the sixth anniversary of the date of grant, of which a maximum of 30 per cent and 100 per cent thereof are exercisable from the first and second anniversaries of the date of grant respectively.
- (c) These interests include options to subscribe for 60,000 shares in the Company exercised by his spouse during the year.
- (d) The weighted average closing price per share immediately before the date on which the options were exercised.
- (e) This interest represents options to subscribe for 140,000 shares in the Company held by his spouse.
- (f) These interests include options to subscribe for 140,000 shares in the Company held by his spouse.

Report of the Directors

(ii) GZT

Name of Director	Date of grant	Exercise price per share HK\$	Number of options (a)			
			outstanding as at 1st January 2002	exercised during the year	weighted average closing price (b) HK\$	outstanding as at 31st December 2002
Mr Liu Jinxiang	22/12/1999	0.9984	9,676,000	324,000	1.17	9,352,000
Mr Xie Shuwen	07/04/2000	0.7520	560,000	—	N/A	560,000
Mr Liang Ningguang	06/08/1997	2.4080	500,000	—	N/A	500,000
	22/12/1999	0.9984	8,400,000	270,000	1.15	8,130,000
Mr Xiao Boyan	06/08/1997	2.4080	500,000	—	N/A	500,000
Mr Cai Hanxiang *	06/08/1997	2.4080	500,000	—	N/A	N/A
Mr Dong Huiyan	07/04/2000	0.7520	560,000	240,000	1.62	320,000
Mr Li Jiaqiang	07/04/2000	0.7520	316,000	136,000	1.62	180,000
Mr Shi Jinling	07/04/2000	0.7520	450,000	—	N/A	450,000
Mr Yin Hui	06/08/1997	2.4080	600,000	—	N/A	600,000
	22/12/1999	0.9984	3,610,000	390,000	1.15	3,220,000
Mr Wang Hongtao	07/04/2000	0.7520	450,000	—	N/A	450,000
Mr Wong Chi Keung	07/04/2000	0.7520	316,000	—	N/A	316,000
Ms Yan Yuk Fung	07/04/2000	0.7520	450,000	—	N/A	450,000

Notes:

- (a) The share options are exercisable from the first anniversary of the date of grant to the business day preceding the sixth anniversary of the date of grant, of which a maximum of 30 per cent, 60 per cent and 100 per cent thereof are exercisable from the first, second and third anniversaries of the date of grant respectively.
- (b) The weighted average closing price per share immediately before the dates on which the options were exercised.
- * Mr Cai Hanxiang resigned as director of the Company with effect from 19th September 2002

Save as disclosed herein, none of the directors of the Company (including their spouse and children under 18 years of age) had any interests in, or had been granted, or exercised, any rights to subscribe for the equity or debt securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) during the year.

Save as disclosed herein, at no time during the year was the Company, its holding company, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

As at 31st December 2002, those persons or corporations having an interest in 10 per cent or more of the issued share capital of the Company as recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance were as follows:

Substantial shareholders	Number of ordinary shares held	Note
Yue Xiu	3,863,735,556	(a)
Excellence Enterprises Co., Ltd.	3,797,629,372	(b)
Bosworth International Limited	2,902,927,212	(c)

Notes:

- (a) This interest represents the total number of ordinary shares of the Company held by Yue Xiu and its subsidiaries where Yue Xiu is taken to be interested in such shares under Section 8 of the SDI Ordinance.
- (b) Subsidiary of Yue Xiu and its interest in the ordinary shares of the Company is duplicated in the interest of Yue Xiu.
- (c) Subsidiary of Excellence Enterprises Co., Ltd. and its interest in the ordinary shares of the Company is duplicated in the interest of Excellence Enterprises Co., Ltd.

Save as disclosed herein, no other person is recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having an interest in 10 per cent or more of the issued share capital of the Company.

Share options

(i) The Company

Pursuant to share option schemes (the “Share Option Schemes”) approved by shareholders of the Company on 21st November 1992 and 23rd June 1998, the board of directors of the Company (the “Board”) may, at their discretion, grant to directors and employees of the Company or any of its subsidiaries options to subscribe for ordinary shares in the Company. The Share Option Schemes are designed to act as an incentive to employees and executives of the Group. The exercise price is determined by the Board and being equal to the higher of (a) the nominal value of the share; and (b) not less than 80 per cent of the average closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding (in the case of the share option scheme adopted on 21st November 1992) the date of offer or (in the case of the share option scheme adopted on 23rd June 1998) the date of grant of an option. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

On 26th June 2002, the shareholders of the Company approved the resolutions relating to the termination of the Share Option Schemes and the adoption of a new share option scheme (the “2002 Share Option Scheme”). Upon termination of the Share Option Schemes, no further share options will be granted thereunder but all the outstanding share options granted prior to such termination continue to be valid and exercisable in accordance therewith, and only those provisions of the Share Option Schemes which are required to give effect to the outstanding share options continue to remain in force for such purpose. The 2002 Share Option Scheme complies with the amendments to Chapter 17 of the Listing Rules.

Pursuant to the 2002 Share Option Scheme, the Board may grant to any person being an employee, officer, director, agent, consultant or representative of Yue Xiu, the Company or any of their respective subsidiaries (“Participants”) options to subscribe for shares in the Company. The purpose of the 2002 Share Option Scheme is to provide incentives to Participants to contribute to the Group and to enable the Group to recruit, retain and motivate high-calibre employees and attract human resources that are valuable to the Group. The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme is 10 per cent of the number of shares in issue as at 26th June 2002. The maximum entitlement of each Participant upon exercise of the options granted or to be granted within any 12-month period immediately preceding the proposed date of grant is limited to 1 per cent of the number of shares in issue as at the proposed date of grant. Any further grant of options in excess of this limit is subject to shareholders’ approval in general meeting. The share options are exercisable from the commencement date of the option period (which shall be a period to be notified by the Board at the time of the grant of an option, such period to commence on the date of grant or such later date as the Board may decide and expire on the last day of the period, which in any event shall not exceed 10 years from the date of grant), of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)), of the options granted under the relevant grant are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the commencement date of the option period respectively. After the second anniversary of the commencement date of the option period the restrictions will cease. In respect of a Participant who is an employee of Yue Xiu, the Company or any of their respective subsidiaries, the same limits on the exercise of the share options as described above shall also apply, except that the periods referred to in (i) and (ii) above shall commence from the later of: (a) the date of completion by such Participant of one year of continuous employment as permanent member of the staff of Yue Xiu, the Company or any of their respective subsidiaries, as the case may be; and (b) the commencement date of the option period, and the date when the restrictions cease shall be modified accordingly. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option. No such options have been granted to any person since its adoption as required to be disclosed under the Listing Rules.

Movements during the year of the options granted under the Share Option Schemes to the employees of the Group other than the directors of the Company as disclosed on page 19 were as follows:

Number of options				Exercise price per share HK\$	Date of grant	Exercisable period ⁽³⁾	Weighted average closing price ⁽⁴⁾ HK\$
outstanding as at 1st January 2002	lapsed during the year	exercised during the year	outstanding as at 31st December 2002				
17,600,000	17,600,000	—	—	0.7344	23/02/1998	23/02/1998 - 20/11/2002	N/A
70,000,000	—	—	70,000,000	0.3936	04/09/1998	04/09/1999 - 03/09/2004	N/A
43,694,000	—	1,220,000	42,474,000	0.5008	14/12/1999	14/12/2000 - 13/12/2005	0.68

Notes:

1. No options have been granted or cancelled during the year.
2. The options granted on 4th September 1998 and 14th December 1999 are exercisable in 2 tranches.
3. If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.
4. The weighted average closing price per share immediately before the dates on which the options were exercised.

(ii) GZT

Pursuant to the share option scheme (“GZT Scheme”) approved by shareholders of GZT on 3rd January 1997, the board of directors of GZT (the “GZT Board”) may, at their discretion, grant to directors and employees of GZT or any of its subsidiaries options to subscribe for ordinary shares in GZT. The GZT Scheme is designed to act as an incentive to employees and executives of GZT and its subsidiaries. The exercise price is determined by the GZT Board and being equal to the higher of (a) the nominal value of the share; and (b) not less than 80 per cent of the average closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of offer of an option. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

On 25th June 2002, the shareholders of GZT approved the resolutions relating to the termination of the GZT Scheme and the adoption of a new share option scheme (the “2002 GZT Scheme”). Upon termination of the GZT Scheme, no further share options will be granted thereunder but all the outstanding share options granted prior to such termination continue to be valid and exercisable in accordance therewith, and only those provisions of the GZT Scheme which are required to give effect to the outstanding share options continue to remain in force for such purpose. The 2002 GZT Scheme complies with the amendments to Chapter 17 of the Listing Rules.

Pursuant to the 2002 GZT Scheme with terms and conditions same as those of 2002 Share Option Scheme, the GZT Board may grant to any person being an employee, officer, director, agent, consultant or representative of the Company, Yue Xiu, GZT or any of their respective subsidiaries options to subscribe for shares in GZT.

Report of the Directors

Movements during the year of the options granted under the GZT Scheme to the employees of the Group other than the directors of the Company as disclosed on page 20 were as follows:

Number of options			Exercise price per share HK\$	Date of grant	Exercisable period ⁽³⁾	Weighted average closing price ⁽⁴⁾ HK\$
outstanding as at 1st January 2002	exercised during the year	outstanding as at 31st December 2002				
21,400,000	—	21,400,000	2.4080	06/08/1997	06/08/1998 - 05/08/2003	N/A
23,502,000	84,000	23,418,000	0.7632	04/09/1998	04/09/1999 - 03/09/2004	1.180
12,206,000	2,212,000	9,994,000	0.9984	22/12/1999	22/12/2000 - 21/12/2005	1.210
10,686,000	1,548,000	9,138,000	0.7520	07/04/2000	07/04/2001 - 06/04/2006	1.507

Notes :

1. No options have been granted, cancelled or lapsed during the year.
2. All options are exercisable in 3 tranches.
3. If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.
4. The weighted average closing price per share of GZT immediately before the dates on which the options were exercised.

Independent non-executive directors' fees

Two independent non-executive directors of the Company each received HK\$38,000 as directors' fees for the year ended 31st December 2002.

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.

Major customers and suppliers

No disclosures with regard to the Group's major customers and suppliers are made since the aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are less than 30 per cent of the Group's total sales and purchases respectively.

Pension scheme arrangements

The Group operates a pension scheme for Hong Kong employees. The scheme is a defined contribution scheme and is administered by independent trustees. In relation to each participating employee, the employee contributes 5 per cent and the Group contributes 5 per cent to 15 per cent of the employee's basic salary to the scheme. There were no significant forfeited contributions in respect of employees who left the scheme prior to vesting fully in the contributions during the year and as at 31st December 2002.

The Group also participates in the Mandatory Provident Fund Scheme ("MPF" Scheme) for Hong Kong employees. The Group's MPF Scheme contributions are at 5 per cent of the participating employee's relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK\$1,000 per employee per month. The participating employees also contribute a corresponding amount to the MPF Scheme from 31st December 2000 if their relevant income is more than HK\$4,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

Certain subsidiaries of the Company in the Mainland of China ("China") are required to participate in a defined contribution retirement plan organised by the Guangzhou Municipal People's Government. All Chinese workers are entitled to a pension equal to a fixed proportion of their ending basic salary amount at their retirement date except for a substantial number of staff members of five subsidiaries in China who are employed by Guangzhou Highways Development Company ("GHDC"), the local partner, pursuant to fixed cost services agreements (the "Services Agreements") executed between these subsidiaries and GHDC. Pursuant to the Services Agreements, details of which are disclosed in note 37(b) to the accounts, GHDC assumes full responsibility for the salaries and all statutory benefits, insurance and welfare funds required to be paid pursuant to relevant laws and regulations of China to the staff members and workers employed by GHDC to perform their duties required under the Services Agreements. The other subsidiaries are required to make contributions to the retirement plan at the rates of 16 per cent to 24 per cent of the basic salaries of their staff members.

The Group's contributions are charged to its profit and loss account and expenses incurred by the Group for the year amounted to HK\$41,113,000.

Compliance with the Code of Best Practice of the Listing Rules

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in appendix 14 of the Listing Rules throughout the year ended 31st December 2002, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association. In the opinion of the Directors, this meets the same objective of the Code of Best Practice.

Audit committee

Pursuant to the Listing Rules, an audit committee (the "Audit Committee"), comprising two independent non-executive directors, namely Mr Yu Lup Fat Joseph and Mr Lee Ka Lun, was established.

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the board of directors of the Company. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

Practice note 19 of the Listing Rules

As at 31st December 2002, the Group had loan agreements with covenants relating to specific performance of the controlling shareholder as set out below:

- (a) Pursuant to a loan agreement (“Tranche A Loan Agreement”) entered into between the Company and two banks in Hong Kong (“Tranche A Lenders”), a loan facility in the aggregate principal amount of US\$25,000,000 (equivalent to approximately HK\$195,000,000) (“Tranche A Facility”) is made available by the Tranche A Lenders to the Company for a term of three years from 7th September 2001 and subject to and in accordance with the terms and conditions therein contained. Yue Xiu has undertaken the Tranche A Lenders that throughout the tenure of the Tranche A Facility and so long as any sum remains outstanding, Yue Xiu will beneficially own (whether directly or indirectly) not less than 40 per cent of the issued share capital of the Company from time to time (“Tranche A Undertaking”).
- (b) Pursuant to a loan agreement (“Tranche B Loan Agreement”) entered into between the Company and a group of banks in Hong Kong (“Tranche B Lenders”), a syndicated loan facility in the aggregate principal amount of HK\$2,630,000,000 (“Tranche B Facility”) is made available by the Tranche B Lenders to the Company for a term of 66 months from 23rd September 2002 or 60 months from date of first drawing, whichever date is earlier, and subject to and in accordance with the terms and conditions therein contained. Yue Xiu has undertaken the Tranche B Lenders that throughout the tenure of the Tranche B Facility and so long as any sum remains outstanding, Yue Xiu will beneficially own (whether directly or indirectly) not less than 30 per cent of the issued share capital of the Company (“Tranche B Undertaking”).

Breach of Tranche A Undertaking or Tranche B Undertaking will constitute an event of default under the respective loan agreements. Upon the occurrence of such event of default, all amounts outstanding under Tranche A Facility or Tranche B Facility will become immediately repayable by the Company. Furthermore, such event of default may also trigger cross default under other banking facilities available to the Company and/or its subsidiaries.

Subsequent event

Details of the subsequent event is set out in note 38 to the accounts.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Ou Bingchang

Chairman

Hong Kong, 16th April 2003