

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries and associates are set out in notes 17 and 19, respectively, to the financial statements.

Except for the acquisition of certain companies engaged in the processing and sale of marble and granite, and the commencement of the fuel manufacturing and trading operations, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 91.

The directors do not recommend the payment of any dividend for the year ended 31 December 2002.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

SUMMARY OF FINANCIAL INFORMATION

The following table summarises the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate. This summary does not form part of the audited financial statements.

SUMMARY OF FINANCIAL INFORMATION (continued)

	Year ended 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
RESULTS					
Turnover:					
Continuing operations	409,259	369,508	444,551	466,997	419,724
Discontinued operations	—	—	—	—	1,089,570
	<u>409,259</u>	<u>369,508</u>	<u>444,551</u>	<u>466,997</u>	<u>1,509,294</u>
Operating profit/(loss):					
Continuing operations	(187,537)	9,714	18,153	(76,509)	(587,917)
Discontinued operations	—	—	—	—	70,254
	<u>(187,537)</u>	<u>9,714</u>	<u>18,153</u>	<u>(76,509)</u>	<u>(517,663)</u>
Share of loss of a jointly-controlled entity					
	(313)	(286)	—	—	—
Share of profits and losses of associates:					
Continuing operations	(6,786)	5,039	14,159	2,409	(35,812)
Discontinued operations	—	—	—	306	(55,357)
	<u>(6,786)</u>	<u>5,039</u>	<u>14,159</u>	<u>2,715</u>	<u>(91,169)</u>
Gain on disposal of discontinued operations					
	—	—	—	548,485	—
Profit/(Loss) before tax	(194,636)	14,467	32,312	474,691	(608,832)
Tax	(8,216)	(7,655)	(9,600)	(14,581)	(3,830)
Profit/(Loss) before minority interests	(202,852)	6,812	22,712	460,110	(612,662)
Minority interests	4,794	(49)	1,167	(233,498)	(5,094)
Net profit/(loss) from ordinary activities attributable to shareholders	<u>(198,058)</u>	<u>6,763</u>	<u>23,879</u>	<u>226,612</u>	<u>(617,756)</u>
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	1,251,300	1,300,267	1,313,404	1,557,286	1,855,290
Total liabilities	(284,487)	(218,186)	(238,964)	(355,285)	(837,403)
Minority interests	(23,729)	(46,284)	(46,320)	(47,593)	(204,068)
	<u>943,084</u>	<u>1,035,797</u>	<u>1,028,120</u>	<u>1,154,408</u>	<u>813,819</u>

FIXED ASSETS

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

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 14 to the financial statements. Further details of the Group's investment properties are set out on pages 92 and 93.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 15 to the financial statements. Further details of the Group's properties under development are set out on page 94.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 32 and 33 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S SHARES

Except for the repurchases of the Company's shares during the year, as detailed in note 32 to the financial statements, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year.

The repurchases of the Company's shares during the year were effected by the directors, pursuant to the mandate from the shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value and earnings per share of the Company.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had no reserves available for distribution. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders in certain circumstances, prescribed by Section 54 thereof. In addition, the Company's share premium account and capital redemption reserve may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$349,000.

DIRECTORS

The directors of the Company during the year were as follows:

Tsui Tsin Tong

Sir David Akers-Jones*

Tsui Ho Chuen, Philip

Tsui Yam Tong, Terry

Lam Ting Ball, Paul

Lau Wong Fat*

Wu Tat Po

Li Hui Yan*

Hung Ting Ho, Richard (appointed on 29 June 2002)

* independent non-executive director

In accordance with the Company's bye-laws, Messrs. Tsui Ho Chuen, Philip and Hung Ting Ho, Richard will retire from office at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a beneficial interest, either direct or indirect, in any significant contract to which the Company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

BRIEF BIOGRAPHIES IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position held	Number of years of service	Business experience
Tsui Tsin Tong JP	63	Chairman	18	More than 32 years' experience in the investment and property fields
Sir David Akers-Jones KBE, CMG, JP	76	Deputy Chairman	12	Former Chief Secretary specialising in land planning and housing development
Tsui Ho Chuen, Philip	39	Executive Deputy Chairman	18	Solicitor
Tsui Yam Tong, Terry	57	Managing Director	16	More than 30 years' experience in administration and management
Lam Ting Ball, Paul	61	Managing Director	30	More than 30 years' experience in the paint industry
Lau Wong Fat OBE, JP	66	Director	12	More than 28 years' experience in land and property business
Wu Tat Po	56	Finance Director	3	More than 22 years' experience in fund management
Li Hui Yan	61	Director	2	More than 31 years' experience in financial control and general management
Hung Ting Ho, Richard	49	Director	1	More than 25 years' experience in business and financial management

BRIEF BIOGRAPHIES IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT (continued)**Senior management**

The businesses of the Group are under the direct responsibility of four directors, namely, Dr. Tsui Tsin Tong, Messrs. Tsui Ho Chuen, Philip, Tsui Yam Tong, Terry and Lam Ting Ball, Paul.

Notes:

1. Dr. Tsui Tsin Tong and Mr. Tsui Yam Tong, Terry are brothers and Mr. Tsui Ho Chuen, Philip is the son of Dr. Tsui Tsin Tong.
2. Mr. Tsui Yam Tong, Terry is the sole director of Rapid Growth Ltd. which is a substantial shareholder of the Company.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND DEBT SECURITIES

At 31 December 2002, the interests of the directors of the Company in the share capital of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name	Number of shares held		Total
	Personal interests	Other interests	
Tsui Tsin Tong	6,000,000	—	6,000,000
Sir David Akers-Jones	2,406,831	—	2,406,831
Tsui Ho Chuen, Philip	—	537,473,906*	537,473,906
Tsui Yam Tong, Terry	1,124,000	537,473,906*	538,597,906
Lau Wong Fat	500,000	—	500,000

* Such interests arose as a result of Messrs. Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry each being a discretionary object of a discretionary trust, the corporate trustee of which, Rapid Growth Ltd., beneficially held 537,473,906 shares in the Company under the SDI Ordinance at 31 December 2002.

At 31 December 2002, the interests of the directors of the Company in the share options to subscribe for shares in the Company under the share option schemes of the Company were as follows:

Name	Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of shares under options	
				Balance at 1 January 2002	Balance at 31 December 2002
Tsui Tsin Tong	27 September 2001	27 September 2001 to 26 September 2006	0.1576	38,000,000	38,000,000
Sir David Akers-Jones	23 August 2000	23 August 2000 to 22 August 2003	0.224	1,000,000	1,000,000

DIRECTORS' INTERESTS IN SHARE CAPITAL AND DEBT SECURITIES (continued)

Name	Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of shares under options	
				Balance at 1 January 2002	Balance at 31 December 2002
Tsui Ho Chuen, Philip	23 August 2000	23 August 2000 to 22 August 2003	0.224	6,000,000	6,000,000
	26 April 2001	26 April 2001 to 25 April 2006	0.2152	4,000,000	4,000,000
	27 September 2001	27 September 2001 to 26 September 2006	0.1576	33,500,000	33,500,000
Tsui Yam Tong, Terry	23 August 2000	23 August 2000 to 22 August 2003	0.224	6,000,000	6,000,000
	26 April 2001	26 April 2001 to 25 April 2006	0.2152	4,000,000	4,000,000
	27 September 2001	27 September 2001 to 26 September 2006	0.1576	33,500,000	33,500,000
Lam Ting Ball, Paul	27 September 2001	27 September 2001 to 26 September 2006	0.1576	10,000,000	10,000,000
Wu Tat Po	23 August 2000	23 August 2000 to 22 August 2003	0.224	1,000,000	1,000,000
	27 September 2001	27 September 2001 to 26 September 2006	0.1576	21,000,000	21,000,000

The spouse of Mr. Tsui Yam Tong, Terry was granted an option to subscribe for 750,000 shares at an exercise price of HK\$0.1576 on 27 September 2001. Such option is exercisable and valid between 27 September 2001 to 26 September 2006, which remained unexercised at the end of the year.

Save as disclosed above, none of the directors or their respective associates had any interest (including personal, family or corporate interests) in the share capital or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance at 31 December 2002, and no right had been granted to, or exercised by, any director of the Company, or his spouse, or children under 18 years of age to subscribe for shares in or debt securities of the Company during the year under review.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in share capital and debt securities" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than under the share option schemes of the Company pursuant to which options were granted to certain directors.

SHARE OPTION SCHEMES

The Company's existing share option scheme ("Scheme") was adopted on 28 June 2002. The key terms of the Scheme are summarised below:

- (i) the purposes of the Scheme are to recognise and motivate the participants of the Scheme that made contributions to the Group and to attract and retain high calibre employees of the Group;
- (ii) the participants of the Scheme include any employee, director, supplier, customer and securities holder of the Company, its subsidiaries or any entity in which the Group holds an equity interest and any person or entity that provides research, development or other technological support to such companies;
- (iii) the total number of shares available for issue under the Scheme is 152,818,819 which represents about 10% of the issued share capital of the Company at the date of this report;
- (iv) the total number of shares issued and to be issued upon exercise of the options granted to each participant (including the exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless it is approved by the shareholders in general meeting;
- (v) an option may be exercised in accordance with the terms of the Scheme at any time during the period to be notified by the directors to the grantee, but in any event not beyond the 10-year period after the date of grant;
- (vi) the subscription price of a share in respect of any option granted shall not be lower than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of a share; and
- (vii) the Scheme remains in force until 27 June 2012.

SHARE OPTION SCHEMES (continued)

No share option has so far been granted under the Scheme since its adoption.

At 31 December 2002, the options granted to continuous contract employees of the Group (other than the directors of the Company and their respective associates) under the Company's old share option schemes expired/cancelled on 2 May 2001 and 28 June 2002, respectively, but remained unexercised were as follows:

Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of shares under options		
			Balance at 1 January 2002	Lapsed during the year	Balance at 31 December 2002
23 August 2000	23 August 2000 to 22 August 2003	0.224	4,000,000	(2,000,000)	2,000,000
27 September 2001	27 September 2001 to 26 September 2006	0.1576	15,534,000	(1,152,000)	14,382,000

Particulars of options granted to each of the directors of the Company and their respective associates are set out in the section headed "Directors' interests in share capital and debt securities" above.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, according to the register kept by the Company under Section 16 of the SDI Ordinance, the following shareholders of the Company were interested in 10% or more of the issued share capital of the Company:

Name	Number of shares held
Rapid Growth Ltd. (Note 1)	537,473,906
Jade Fortune Venture Limited (Note 2)	200,000,000

Notes:

1. The interest of Rapid Growth Ltd. is detailed in the section headed "Directors' interests in share capital and debt securities" above.
2. Jade Fortune Venture Limited was taken to have an interest in 200,000,000 shares in the Company by virtue of a security interest over these shares charged by Rapid Growth Ltd.. Morganite Holding Limited and Mr. Tse Cho Tseung were deemed to be interested in these shares under the SDI Ordinance by virtue of their shareholding interests in Jade Fortune Venture Limited.

Save as disclosed above, the directors of the Company are not aware of any other person who, at 31 December 2002, was directly or indirectly beneficially interested in 10% or more of the issued share capital of the Company.

CONNECTED TRANSACTIONS

The connected transactions disclosed in accordance with Chapter 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange are as follows:

- (i) During the year, the Company and certain of its wholly-owned subsidiaries have made various advances to the following non wholly-owned subsidiaries:

Name of company	Percentage of equity interest attributable to the Group	Amount of advances as at 31 December 2002 HK\$'000
Elegant Stone International Ltd.	76.1	23,852
Wilfred Marble Engineering Limited (“Wilfred Marble”)	76.1	2,535
Dragon Century Investment Limited	70	2,166
Shinfull Development Limited	60	1,953
Dalian Qinggang Real Estate Development Co., Ltd.	60	7,641
New China Environmental Protection Limited	55	1,020
China Hong Kong Quarries Limited	51.2	3,785

The above advances are made to the above companies to provide working capital to finance its operations.

The above advances are unsecured, interest-free and have no fixed terms of repayment.

- (ii) At 31 December 2002, certain wholly-owned subsidiaries of the Company have pledged time deposits amounting to HK\$3,950,000 in favour of certain banks for securing banking facilities granted to Wilfred Marble.
- (iii) During the year, a wholly-owned subsidiary of the Company has issued stand-by letters of credit in favour of Wilfred Marble in aggregate of HK\$3,200,000 of which HK\$2,000,000 expired on 24 January 2003. The remaining HK\$1,200,000 will expire on 26 November 2003.
- (iv) During the year, the Company has granted corporate guarantees amounting to HK\$30,000,000 in favour of certain banks for securing banking facilities granted to Wilfred Marble.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the accounting year covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms. The independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board of

CNT GROUP LIMITED

Tsui Tsin Tong

Chairman

Hong Kong

22 April 2003