

# Report of the Directors

**The directors present their annual report and 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. Details of the principal activities of the principal subsidiaries and associates are set out in note 19 and note 20 to the financial statements, respectively. There were no changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit 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 27 to 83.

An interim dividend of HK1.5 cents (2001: HK1.5 cents) per share was paid on 31 October 2002. The directors recommend the payment of a final dividend of HK2.5 cents (2001: HK2.5 cents) per share in respect of the year to shareholders on the register of members on 28 May 2002. The recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 84. This summary is not part of the audited financial statements.

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in note 14 and note 18 to the financial statements.

## PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 19 to the financial statements.

## PRINCIPAL ASSOCIATES

Particulars of the Company's and the Group's interests in its principal associates are set out in note 20 to the financial statements.

## BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Company and of the Group are set out in note 27 to the financial statements.

## CONVERTIBLE BONDS

Details of the Group's convertible bonds are set out in note 28 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons thereof, are set out in note 31 to the financial statements.

## PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

During the year, the Company fully redeemed its US\$230 million convertible bonds. Further details of the redemption are set out in note 28 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$452,634,000, of which HK\$60,357,000 has been proposed as a final dividend for the year.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest of the Group's five largest customers or five largest suppliers.

## DIRECTORS

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

### Executive directors:

Mr. Song Zhiwang

Mr. Liu Zixian

Mr. Sun Juyi

(resigned on 3 March 2003)

Mr. Zhu Qiyi

Mr. Zhang Luzheng

Mr. Yang Yefang

Mr. Xu Ruxin

(appointed on 22 April 2002)

Mr. Zhu Huoyang

(appointed on 22 April 2002)

### Non-executive directors:

Mr. Wong Po Yan

Mr. Lee Yip Wah, Peter

Mr. Wu Wai Chung, Michael

(appointed on 9 October 2002)

In accordance with Articles 92 and 101 of the Company's Articles of Association, Messrs. Song Zhiwang, Zhu Qiyi, Wong Po Yan and Wu Wai Chung, Michael will retire and except for Mr. Song Zhiwang all other retiring directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Pursuant to Article 105 of the Company's Articles of Association, the Board of Directors has recommended Mr. Hu Aimin for election as a director of the Company at the forthcoming annual general meeting to fill up the vacated office resulting from the retirement of Mr. Song zhiwang.

Mr. Hu Aimin, aged 54, was former secretary general of the Shenzhen Municipal Government. He has been appointed the Chairman of Shum Yip Holdings since 2 April, 2003.

The terms of office of the non-executive directors are subject to retirement as required by the Company's Articles of Association.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 20 of the annual report.

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors emoluments and of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements respectively.

## INTEREST CAPITALISED

Interest of approximately HK\$15,999,000 was capitalised during the year in respect of the Group's property development projects.

## DIRECTORS' SERVICE CONTRACTS

Mr. Zhang Luzheng, Mr. Zhu Qiyi and Mr. Yang Yefang have entered into a service agreement with the Company for an initial period of three years commencing 1 February 1998 which will continue thereafter unless and until terminated by either party by six months' prior written notice.

Apart from the foregoing, no directors 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.

## DIRECTORS' INTERESTS IN CONTRACTS

No directors had a material interest in any contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance").

## SHARE OPTION SCHEME

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34 "Employee benefits", most of the detailed disclosures relating to the Company's share option schemes have been moved to note 31 to the financial statements.

Concerning the share options granted during the year as detailed in note 31, the directors do not consider it appropriate to disclose a theoretical value of the options granted because a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period and the conditions that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Apart from as disclosed under the heading "Directors' interests in shares" and in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or its associated corporations granted to any director, or their spouse or children under the age of 18, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	%
Shum Yip Holdings Company Limited	1,392,233,966	57.67

*Note:* Pursuant to an ordinary resolution passed on 30 July 2002, the Company approved the subdivision of each of the existing issued and unissued shares of HK\$0.10 each into two shares of HK\$0.05 each. Accordingly, the number of shares as shown in this paragraph have been adjusted for such subdivision of shares.

Saved as disclosed above, no person, other than the directors of the Company, whose interest are set out in the section "Directors interest in shares" above, had registered an interest in the share capital of the Company that were required to be recorded.

## CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in note 36 to the financial statements.

Save as disclosed above, 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 (the “Listing Rules”).

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

## 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 of the Listing Rules of The Stock Exchange of Hong Kong Limited (“Code of Best Practice”), throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code of Best Practice, but are subject to retirement by rotation in accordance with the Company’s Articles of Association.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee currently comprises Mr. Wong Po Yan, Mr. Lee Yip Wah, Peter and Mr. Wu Wai Chung, Michael, independent non-executive directors. The Audit Committee has reviewed the Group’s results for the year in a meeting held on 23 April 2003.

## 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

**Song Zhiwang**  
Chairman

Hong Kong, 23 April, 2003