

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 44 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 24 of the annual report.

The directors do not recommend the payment of any dividend.

SHARE CAPITAL

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company, details of which are set out in note 26 to the financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

Details of these and other movements in the share capital of the Company are set out in note 26 to the financial statements.

INVESTMENT PROPERTIES AND HOTEL PROPERTIES

At 31st December, 2002, the investment properties and hotel properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis at HK\$728,974,000 and HK608,400,000 respectively. The deficit of HK\$46,226,000 arising on the revaluation of investment properties has been charged to the consolidated income statement. No surplus or deficit arose on revaluation of hotel properties.

Details of these and other movements in the investment properties and hotel properties of the Group for the year are set out in notes 12 and 13 to the financial statements, respectively.

PROPERTY, PLANT AND EQUIPMENT

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

PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In July 2002, the Group acquired the entire issued share capital of Johnsbury Limited ("Johnsbury") at a consideration of HK\$150,000,000 in cash. Johnsbury is an investment holding company which holds 40% equity interest in Shanghai Puly Real Estate Development Co. Ltd. ("Shanghai Puly"). Shanghai Puly is a sino-foreign joint venture company established in the People's Republic of China ("PRC") and is engaged in the business of property holding. The transaction constituted a connected transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Details of which are set out in note 42(I) to the financial statements.

In July 2002, the Group disposed of its entire 40.3% equity interest in Poly Investment Holdings Limited ("Poly"), a public limited company incorporated in Hong Kong with its shares listed on the Stock Exchange, at a total consideration of approximately HK\$293,095,000.

Details of the Company's principal subsidiaries and the Group's principal associates and jointly controlled entities at 31st December, 2002 are set out in notes 44, 18 and 19 to the financial statements, respectively.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Wang Jun (*Chairman*)

He Ping (*Vice-Chairman*)

Li Shi Liang (*Managing Director*)

Xie Da Tong

Chan Tak Chi, William (appointed on 31st March, 2003)

Li Tong Zhou (resigned on 31st March, 2003)

Independent non-executive directors:

Yao Kang, J.P.

Ip Chun Chung, Robert

Lam Tak Shing

In accordance with Articles 99 & 116 of the Company's Articles of Association, Messrs. Wang Jun, He Ping and Chan Tak Chi, William will retire and, being eligible, offer themselves for re-election.

The term of office of each of the independent non-executive directors lasts until his retirement by rotation as required by the Company's Articles of Association.

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None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

SHARE OPTIONS

Other than the Company's share options scheme, details of which are set out in note 27 to the financial statements, 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 debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

Details of the directors' interest in share options to subscribe for shares in the Company are set out in note 27 to the financial statements.

DIRECTORS' INTERESTS IN SECURITIES

During the year ended 31st December, 2002, certain directors of the Company had share option granted by Poly, a former associate of the Group, pursuant to a share option scheme ("Poly Scheme") adopted by Poly on 5th December, 1990 to subscribe for shares in Poly as follows:

		Number of shares subject to Poly Scheme			
	Date of grant	Exercise price per Poly Share HK\$	Outstanding at 1.1.2002	Cancelled during the year	Outstanding at 31.12.2002
Wang Jun	3.9.1997	1.27	10,000,000	(10,000,000)	—
	5.6.1998	0.50	10,000,000	(10,000,000)	—
	30.11.2000	0.50	7,000,000	(7,000,000)	—
He Ping	3.9.1997	1.27	10,000,000	(10,000,000)	—
	5.6.1998	0.50	10,000,000	(10,000,000)	—
	30.11.2000	0.50	7,000,000	(7,000,000)	—
Li Shi Liang	30.11.2000	0.50	8,400,000	(8,400,000)	—
Xie Da Tong	3.9.1997	1.27	8,000,000	(8,000,000)	—
	5.6.1998	0.50	8,000,000	(8,000,000)	—
	30.11.2000	0.50	5,500,000	(5,500,000)	—

Options granted are exercisable during the period commencing on the date of grant and expiring in ten years after the date of grant.

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Save as disclosed above and in the section headed "Share Options", as at 31st December, 2002, none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") which is required to be recorded in the register maintained under Section 29 of the SDI Ordinance or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2002, according to the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following persons were interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Number of ordinary shares beneficially held
Congratulations Company Ltd.	169,745,000
Source Holdings Limited (<i>Note 1</i>)	328,485,560
Ting Shing Holdings Limited (<i>Note 2</i>)	498,230,560
Ringo Trading Limited (<i>Note 3</i>)	537,678,036
China Poly Group Corporation (<i>Note 4</i>)	537,678,036

Notes:

1. Source Holdings Limited is deemed by the SDI Ordinance to be interested in 328,485,560 shares of the Company as a result of its direct holding of the shares and indirect holdings of the shares through its wholly-owned subsidiaries.
2. Ting Shing Holdings Limited is deemed by the SDI Ordinance to be interested in 498,230,560 shares as a result of its indirect holding of the shares through its subsidiaries, representing Source Holdings Limited and Congratulations Company Ltd.
3. Ringo Trading Limited is deemed by the SDI Ordinance to be interested in 537,678,036 shares as a result of its direct holding of the shares and indirect holding of the shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
4. China Poly Group Corporation owns 100% of Ringo Trading Limited and is accordingly deemed by the SDI Ordinance to be interested in the shares directly and indirectly owned by Ringo Trading Limited.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company at 31st December, 2002.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 42 to the financial statements. In the opinion of the directors who do not have any interest in the these transactions, the transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance 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, subsisting at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 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.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended 31st December, 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 43 to the financial statements.

AUDITORS

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

LI Shi Liang

MANAGING DIRECTOR

Hong Kong, 25th April, 2003