

The Directors have pleasure in submitting their report together with the audited accounts of the Company and the Group for the financial year ended 31st March, 2003.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the Company's subsidiaries are building construction, civil engineering, renovation and fitting-out, building repair and maintenance, construction management, property investment, property rental, property development, contractor finance and undertaking projects on a "Build, Operate and Transfer" basis. An analysis of the Group's performance for the year by business segments is set out in note 2 to the accounts.

## RESULTS

The results of the Group for the financial year ended 31st March, 2003 are set out in the Consolidated Profit and Loss Account on page 118.

The Directors do not recommend the payment of dividend for the financial year.

## RESERVES

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

## DONATIONS

During the financial year, donations by the Company and its subsidiaries amounted to HK\$59,000 (2002: HK\$133,500).

## FIXED ASSETS

Detail of the movements in the fixed assets of the Group are set out in note 12 to the accounts.

## GROUP'S PROPERTIES

A summary of the Group's major properties is included in the section of the annual report entitled "Major Properties".

## SHARE CAPITAL

Detail of the movement in share capital of the company are set out in note 24 to the accounts.

No pre-emptive rights exist in Bermuda in which the Company is incorporated.

## SALE AND PURCHASE OF OWN SHARES

Pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited and according to the provisions of the Bye-Laws of the Company relating to share repurchase, the Directors intend to seek the shareholders' approval at the forthcoming Annual General Meeting for the grant of an unconditional general mandate to purchase shares of the Company to an extent not exceeding 10% of the issued share capital of the Company at the date of passing the resolution approving the mandate for share repurchase.

During the financial year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## DIRECTORS

The Directors in office during the financial year and up to the date of this report are:

Meou-tsen Geoffrey YEY	(retired on 24th August, 2002)
V-nee YEY	
Rodney Gordon FRANKS	
Siu-lun CHEUNG	
Ming Joseph LAI	
Wai-tai LAW	
Tobias Josef BROWN*	(appointed on 13th June, 2003)
David Wylie GAIRNS*	(retired on 1st September, 2002)
Ho-ming Herbert HUI*	
Kin-fung Jeffrey LAM*	(appointed on 24th August, 2002)
Kwok-kuen Peter LAU*	(appointed on 24th August, 2002)
Richard Paul MARGOLIS*	(appointed on 24th August, 2002 and resigned on 28th February, 2003)
Anthony Francis RADEMEYER*	(appointed on 18th March, 2003)
Brian ROBERTSON*	(resigned on 18th March, 2003)
YAO Kang*	(retired on 1st July, 2002)
Mou-chong David YEY**	
Kok-foo James LEE	(Alternate Director to Siu-lun CHEUNG)
Shiu-chung Jacky POON	(Alternate Director to Wai-tai LAW)

\* Independent Non-Executive Director

\*\* Non-Executive Director

As Messrs. Kin-fung Jeffrey LAM and Kwok-kuen Peter LAU, Mr. Anthony Francis RADEMEYER and Mr. Tobias Josef BROWN were appointed Directors of the Company on 24th August, 2002, 18th March, 2003 and 13th June, 2003 respectively, they shall retire at the forthcoming Annual General Meeting in accordance with Bye-Law 101(B) of the Company's Bye-Laws. Messrs. Kin-fung Jeffrey LAM, Anthony Francis RADEMEYER and Tobias Josef BROWN offer themselves for re-election at the forthcoming Annual General Meeting.

Messrs. Ho-ming Herbert HUI, Kin-fung Jeffrey LAM, Kwok-kuen Peter LAU, Anthony Francis RADEMEYER and Tobias Josef BROWN, Independent Non-Executive Directors, were appointed for a term of two years subject to rotation as stipulated in the Company's Bye-Laws.

## DIRECTORS' INTERESTS

- (i) At 31st March, 2003, the Directors and Alternate Director of the Company listed below had the following beneficial interests in the share capital of the Company as recorded in the register of directors' and chief executives' interests and short positions required to be kept by the Company under Section 352 of the Securities and Futures Ordinance ("SFO"):

	Number of Shares Held				
	Personal Interests	Family Interests	Corporate Interests	Other Interests	Grant of Right*
V-nee YEH	15,676,843	—	—	113,350,819 (Note 1)	768,000
Siu-lun CHEUNG	221,983	—	—	—	—
Ming Joseph LAI	3,003,604	—	—	—	—
Wai-tai LAW	1,907,716	421,000	—	—	560,000
Mou-chong David YEH	831,959	—	—	80,074,576 (Note 2)	—
Kok-foo James LEE (Alternate to Siu-lun CHEUNG)	197,556	—	—	—	958,000

\* Options to subscribe for shares in the Company under the Company's Executive Share Option Scheme.

Note 1: The share interests are held by GHY Company Limited acting as trustee of a trust in which Mr. V-nee YEH has a beneficial interest.

Note 2: The share interests include 75,075,776 shares held by Howay Investment Ltd. which is wholly owned by a trust and 4,998,800 shares held by another trust. Mr. Mou-chong David YEH has beneficial interests in these trusts.

- (ii) Save as disclosed above, none of the other Directors and Alternate Directors of the Company had any beneficial interests, as defined in Paragraph (i) above, in the share capital of the Company and its associated corporations as at 31st March, 2003.

## SHAREHOLDERS' INTERESTS

As recorded in the register of interests in shares and short positions required to be kept by the Company under Section 336 of the SFO, the following shareholders were, directly and indirectly, interested in 5% or more of the issued share capital of the Company as at 31st March, 2003:

Shareholder's Name	Number of Shares Held
Meou-tsen Geoffrey YEH	186,866,064 (Note 1)
Hsin Chong International Holdings Limited	183,130,508
V-nee YEH	129,027,662 (Note 2)
GHY Company Limited	113,350,819
Mou-chong David YEH	80,906,535 (Note 3)
Howay Investment Ltd.	75,075,776

Note 1: These share interests include 183,130,508 shares held by Hsin Chong International Holdings Limited in which Dr. Meou-tsen Geoffrey YEH has a corporate interest pursuant to the SFO.

*Note 2:* These share interests include 113,350,819 shares held by GHY Company Limited acting as trustee of a trust in which Mr. V-nee YEH has a beneficial interest.

*Note 3:* These share interests include 75,075,776 shares held by Howay Investment Ltd. which is wholly owned by a trust and 4,998,800 shares held by another trust. Mr. Mou-chong David YEH has beneficial interests in these trusts.

## **DIRECTORS' INTERESTS IN CONTRACTS**

During or at the end of the financial year, none of the Directors had a material interest in any significant contracts with the Company or its subsidiaries, other than Dr. Meou-tsen Geoffrey YEH (retired on 24th August, 2002), who is interested in the connected transactions mentioned below by virtue of his shareholding in Hsin Chong International Holdings Limited.

## **CONNECTED TRANSACTIONS**

Under Chapter 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited ("Listing Rules"), the following transactions between the subsidiaries of the Company and subsidiaries of Hsin Chong International Holdings Limited ("HCIH") constituted connected transactions by virtue of HCIH being the substantial shareholder of the Company and Dr. Meou-tsen Geoffrey YEH having a controlling interest in HCIH:

- (a) During the financial year, certain subsidiaries of the Company paid insurance premiums on normal commercial terms in an aggregate amount of approximately HK\$29,823,000 to Summit Insurance (Asia) Limited, a subsidiary of HCIH.
- (b) During the financial year, an agency agreement subsisted which was entered into between Cogent Spring Limited ("Cogent Spring"), a subsidiary of the Company and Hsin Chong Real Estate Agency Limited ("HCREA"), a subsidiary of HCIH whereby Cogent Spring appointed HCREA as sole agent relating to sub-letting of the leased premises at No.3 Lockhart Road, Wanchai, Hong Kong. In the opinion of the Directors, the transaction was conducted on normal commercial terms in the ordinary course of business of the Group. The transaction was reviewed by Independent Non-Executive Directors on 9th June, 1994.
- (c) During the financial year, an agreement subsisted which was entered into between Anber Limited ("Anber"), a subsidiary of the Company and Hsin Chong (Project Management) Limited ("HCPM"), a subsidiary of HCIH whereby Anber appointed HCPM as the project manager of the development of the Proposed Service Apartments at 179 Nguyen Cu Trinh Street, District 1, Ho Chi Minh City, Vietnam ("Vietnam Development") with a project management fee of 2.5% of the total construction cost of the Vietnam Development and a bonus equivalent to 15% of the profit from the sale of the Vietnam Development. In addition, another agreement subsisted which was entered into between Easeway Thaison Co. Limited ("Easeway"), a subsidiary of the Company and HCPM whereby Easeway appointed HCPM to provide logistic services for the Vietnam Development. Due to the suspension of the Vietnam Development, the fee for providing logistic services has been suspended during the financial year until further notice.

- (d) During the financial year, an agreement subsisted which was entered into between Hsin Chong Construction (Tianjin) Limited ("HCCT"), a subsidiary of the Company and HCPM whereby HCCT appointed HCPM as the project manager of the development of Taifeng Industrial Park (Phase I), Tianjin, the People's Republic of China ("PRC") ("Tianjin Development") with a project management fee of 3% of the total construction cost of the Tianjin Development. In addition, another agreement subsisted which was entered into between HCCT and HCPM whereby HCCT appointed HCPM to provide logistic services for the Tianjin Development. The project management fee and the fee for providing logistic services have been suspended during the financial year.

Subsequent to the financial year ended 31st March, 2003, HCCT decided to terminate the Tianjin Development. The land for Tianjin Development will be disposed of to Taifeng Industrial Park Investment Ltd. ("Taifeng") pursuant to an agreement executed between HCCT and Taifeng on 8th April, 2003. Upon completion of the disposal of land, the said project management agreement and the agreement for provision of logistic services will be terminated.

- (e) During the financial year, an agreement subsisted which was entered into between Rife Yard Limited ("Rife Yard"), a subsidiary of the Company and HCREA whereby Rife Yard appointed HCREA as the selling agent for the commercial areas of Tuen Mun Town Lot No.395 Private Sector Participation Scheme with an agency fee of 1% of the selling price and a further incentive bonus with rates ranging from 2.5% to 10% for sales exceeding HK\$400,000,000.
- (f) During the financial year, an agreement subsisted which was entered into between Guangzhou Fengyu Real Estate Co. Ltd. ("GZFRE"), a subsidiary of the Company and HCPM whereby GZFRE appointed HCPM as the project manager of the development of Guangzhou Wen Chang Court (formerly "Guangzhou Wen Chang Square") (Phase I), Guangzhou City, PRC ("Guangzhou Development") with a project management fee of 3% of the total construction cost of the Guangzhou Development. Another agreement subsisted which was entered into between Glenwell Orient Limited ("Glenwell"), a subsidiary of the Company and HCPM whereby Glenwell appointed HCPM to provide logistic services for the Guangzhou Development. In addition, another agreement subsisted which was entered into between GZFRE and HCPM whereby HCPM was appointed to provide demolition and removal management services for the Guangzhou Development ("Demolition and Removal Services Agreement"). Demolition and Removal Services Agreement was terminated and replaced by a new agreement executed between GZFRE and HCPM on 24th August, 2002. The demolition and removal was completed in May 2003.
- (g) During the financial year, a novation agreement subsisted which was entered into between Deventer Limited ("Deventer"), a subsidiary of the Company and Hsin Sheng Services Limited ("HSS") (now known as "Hsin Sheng Security Services Limited"), a subsidiary of HCIH and Hsin Chong Johnson Controls IFM Limited ("HCJC"), a jointly controlled entity of HCIH whereby Deventer appointed HCJC to replace HSS as property manager in respect of management and maintenance of the property at 107-109 Wai Yip Street, Kwun Tong ("Hsin Chong Center") ("Property Management Contract"). On 30th November, 2002, the Property Management Contract was further novated to Hsin Chong Facility Management Limited ("HCFM"), a subsidiary of HCIH, under a novation agreement entered into between Deventer, HCFM and HCJC whereby Deventer appointed HCFM to replace HCJC as property manager in respect of management and maintenance of Hsin Chong Center.

- (h) During the financial year, a tenancy agreement subsisted which was entered into between Deventer as the landlord and Hsin Chong Holdings (H.K.) Limited ("HCH"), a subsidiary of HCIH as the tenant whereby HCH rent the premises at Hsin Chong Center as headquarters for the period from 2nd April, 1999 to 31st March, 2005, with rental for the remaining unexpired period determined at the then prevailing market rates, at 1st April, 2001 and 1st April, 2003 respectively. The announcement of the transaction was made on 15th March, 1999.
- (i) On 28th July, 2001, a tenancy agreement was entered into between Firmwin Peak Limited ("Firmwin Peak"), a subsidiary of HCIH and Hsin Chong Construction Company Limited ("HCC"), a subsidiary of the Company whereby HCC rented a parcel of ground situated at Ngau Tam Mei, Yuen Long owned by Firmwin Peak for storage of plants and machinery on month-by-month basis commencing from 1st April, 2001 at a monthly rental of HK\$117,049 with same terms each month. The agreement would be terminated with one month's prior notice to HCC. The announcement of the transaction was made on 1st August, 2001. The agreement was terminated on 24th May, 2003.

For transactions (c) to (g) above, the Independent Non-Executive Directors have reviewed the transactions and confirmed that they are conducted in the ordinary and usual course of business of the Group; on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; fair and reasonable so far as the shareholders of the Company are concerned and that the said transactions entered into in the financial year are within the cap amount approved by the shareholders at the Annual General Meeting held on 21st August, 1997.

The following connected transactions are relating to granting of financial assistance by the Group to its non wholly owned subsidiaries:

- (j) On 17th January, 2000, Hsin Chong Construction (BVI) Ltd. ("HCCBVI"), a subsidiary of the Company provided a credit facility of HK\$20,000,000 to Flannel Limited (in Receivership) ("Flannel"), in which the Company has 92.79% interest. As security for the credit facility and other borrowings, Flannel provided a debenture ("Debenture") pledging its assets in favour of HCCBVI as the lender. As at 31st March, 2003, Flannel had borrowed HK\$12,835,000 under the said credit facility and other borrowings from HCCBVI at an interest rate of 1.25% or default interest rate of 4.25% as the case may be, over Hong Kong Interbank Offer Rate per annum.

On 27th May, 2003, HCCBVI appointed Messrs. Jim Wardell and Jackson Ip, both of CCIF Corporate Advisory Services Ltd. as Receivers and Managers of the assets and undertaking of Flannel under the Debenture. The announcement of the appointment of Receivers and Managers of Flannel was made on 27th May, 2003. Flannel ceased its operation on 18th June, 2002.

- (k) On 23rd October, 2001, HCCBVI provided a credit facility of HK\$15,000,000 to Flannel (Asia) Limited ("Flannel Asia"), in which the Company has 92.79% interest. As security for the credit facility and other borrowings, Flannel Asia provided a debenture pledging its assets in favour of HCCBVI as the lender. As at 31st March, 2003, Flannel Asia had borrowed HK\$7,677,000 under the said credit facility and other borrowings from HCCBVI, at an interest rate of 5% over Hong Kong's prime rate per annum.

On 9th June, 2003, the board of Flannel Asia passed a resolution to arrange for Flannel Asia to enter into creditors' voluntary liquidation. A meeting of creditors will be convened on 11th July, 2003 and the notice of the said meeting was published in the Gazette and the newspapers on 13th June, 2003. Flannel Asia ceased its operation on 18th June, 2002.

- (l) On 21st June, 2000, the Company had provided a parent company guarantee in favour of an employer in respect of Flannel's due performance of the foundation works for the Senior Citizen Residence at Tseung Kwan O ("Works") awarded to Flannel with a contract sum of HK\$15,300,000. On 4th October, 2000, the Company had provided an indemnity to a surety which issued a bond in the amount of HK\$3,825,000 in favour of an employer in respect of the Works. The parent company guarantee and the indemnity were released on 19th April, 2002 and 4th November, 2002 respectively.
- (m) On 20th July, 2001, the Company had provided an indemnity to a surety which issued a bond in the amount of HK\$1,000,000 in favour of an employer in respect of Flannel Asia's due performance of the foundation works for proposed residential building at 377 Prince Edward Road, Kowloon. The indemnity was released on 5th July, 2002.
- (n) On 21st September, 1995, a joint venture agreement was entered into between Glenwell, Guangzhou Free Trade Zone Dongjing Property Co. Ltd. ("Dongjing"), both in which the Group has 70% equity interest (after taking into account the changes in shareholding of Glenwell and Dongjing subsequent to 21st September, 1995), and Guangzhou Development District Real Estate Corporation ("PRC Party") for setting up a joint venture known as GZFRE for the Guangzhou Development. GZFRE is owned as to 60% by Glenwell and 40% by the PRC Party. Pursuant to the terms of the said joint venture agreement, Glenwell has agreed to make financial arrangements for any additional working capital for the Guangzhou Development in excess of the initial registered capital of GZFRE of HK\$80,000,000. However, such additional working capital will not exceed HK\$120,000,000 (of which Dongjing will provide a maximum of HK\$48,000,000) and will be arranged either by way of shareholders' loan or external borrowings. The details have been disclosed in the announcement dated 21st September, 1995. Accordingly, the Group entered into the following transactions:
  - (i) As at 31st March, 2003, Glenwell advanced a total of HK\$25,710,000 to GZFRE which carries interest at 3% over the Hong Kong prime rate per annum.
  - (ii) In May and December 2000 and December 2001, Glenwell arranged three three-year loan facilities with financial institutions in PRC of a total of RMB30,000,000, RMB8,000,000 and RMB2,500,000 respectively on the condition that each drawdown is to be secured by a collateral deposit of Glenwell. At 31st March, 2003, the drawdown of the said facilities amounted to RMB12,000,000, RMB8,000,000 and RMB2,500,000 respectively.

- (iii) In June 2000, Dongjing arranged a three-year loan facility with a financial institution in PRC of a total of RMB15,000,000 on the condition that each drawdown is to be secured by a collateral deposit of Dongjing. As at 31st March, 2003, the drawdown of the said facility amounted to RMB10,800,000.

On 31st July, 2002 and 28th November, 2002, the Company had provided parent company guarantees ("Guarantees") to the extent of 70% in favour of The Hongkong and Shanghai Banking Corporation Limited, Shenzhen Office ("HSBC") in respect of a bridging loan facility of RMB30,000,000 and a construction finance facilities of US\$15,660,000 (or RMB130,000,000) granted to GZFRE ("Facilities") respectively. The purpose of these facilities is to finance the construction and development costs of Guangzhou Development. In consideration for the Guarantees provided, a commission at 1% per annum on the amount guaranteed will be charged to GZFRE, with total maximum amount not exceeding RMB3,900,000. As at 31st March, 2003, the drawdown of the bridging loan facility amounted to RMB19,000,000.

Save as aforementioned, there were no other connected transactions which were required to be disclosed under the Listing Rules, entered into between the Company or any of its subsidiaries and a connected person in respect of and subsequent to the financial year.

### **CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

### **DIRECTORS' SERVICE CONTRACT**

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting have entered into any service contract with the Company, which is not determinable by the employer within one year without payment of compensation other than statutory compensation.



### EXECUTIVE SHARE OPTION AND EMPLOYEE SHARE SUBSCRIPTION SCHEMES

The Company operates an Executive Share Option Scheme (“ESOS”) and an Employee Share Subscription Scheme (“ESSS”). Summaries of the ESOS and ESSS are included in the section of the annual report entitled “Summary of Share Schemes”.

During the financial year, movements of the options granted under the ESOS and shares allotted under ESSS are set out below:

#### ESOS

Name of participant	Date of grant	Options held as at 1/4/2002	Changes during the financial year				Options held as at 31/3/2003	Exercise price (HK\$)	Exercisable period
			Lapsed	Granted	Exercised	Cancelled			
<b>Director and/or Substantial Shareholder</b>									
Meou-tsen Geoffrey YEH	25/9/1996	694,000	694,000	—	—	—	Nil	0.80	25/9/1998 — 24/9/2008
	25/9/1996	692,000	692,000	—	—	—	Nil	0.80	25/9/1999 — 24/9/2009
V-nee YEH	25/9/1996	384,000	—	—	—	—	384,000	0.80	25/9/1998 — 24/9/2008
	25/9/1996	384,000	—	—	—	—	384,000	0.80	25/9/1999 — 24/9/2009
<b>Director</b>									
Wai-tai LAW	25/9/1996	280,000	—	—	—	—	280,000	0.80	25/9/1998 — 24/9/2008
	25/9/1996	280,000	—	—	—	—	280,000	0.80	25/9/1999 — 24/9/2009
<b>Alternate Director</b>									
Kok-foo James LEE	25/9/1996	178,000	—	—	—	—	178,000	0.80	25/9/1997 — 24/9/2007
	25/9/1996	390,000	—	—	—	—	390,000	0.80	25/9/1998 — 24/9/2008
	25/9/1996	390,000	—	—	—	—	390,000	0.80	25/9/1999 — 24/9/2009
<b>Employees</b> (in aggregate)	25/9/1996	188,000	—	—	—	—	188,000	0.80	25/9/1997 — 24/9/2007
	25/9/1996	1,820,000	282,000	—	—	—	1,538,000	0.80	25/9/1998 — 24/9/2008
	25/9/1996	1,814,000	282,000	—	—	—	1,532,000	0.80	25/9/1999 — 24/9/2009
		7,494,000	1,950,000	—	—	—	5,544,000		

**ESSS**

Name of participant	Date of allotment	Changes during the financial year			Subscription price (HK\$)	Closing price (on the date of allotment) (HK\$)	Operating period
		Allotted	Lapsed	Cancelled			
<b>Director and/or Substantial Shareholder</b>							
Meou-tsen Geoffrey YEH	9/7/2002	217,030	—	—	0.350	0.350	1/1/2002 — 30/6/2002
V-nee YEH	9/7/2002	187,393	—	—	0.350	0.350	1/1/2002 — 30/6/2002
		404,423	—	—			

Save as mentioned in the preceding paragraphs, at no time during the year was the Company or its subsidiaries, a party to any other arrangements to enable the Directors or Chief Executive or any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, its subsidiaries or any other body corporate.

**MANAGEMENT CONTRACT**

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the financial year.

**BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS**

The particulars of bank loans, overdrafts and other borrowings of the Company and its subsidiaries at 31st March, 2003 are set out in note 22 to the accounts.

**FIVE YEAR FINANCIAL INFORMATION**

The published results and the assets and liabilities of the Group for the last five years are included in the section of the annual report entitled “Five Year Financial Summary”.

**PROFORMA COMBINED BALANCE SHEET OF AFFILIATED COMPANIES**

A proforma combined balance sheet of certain affiliated companies with major financial assistance and the Group's attributable interest in these affiliated companies are shown on page 163 pursuant to Practice Note 19 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

**MAJOR CUSTOMERS AND SUPPLIERS**

During the financial year, the Group's five largest customers accounted for 87% of the Group's total turnover. None of the Directors, their associates, or any shareholder which, to the knowledge of the Directors, owns more than 5% of the Company's share capital has any interest in any of the Group's five largest customers. The Group's largest customer accounted for 34% of the Group's total turnover for the year.

During the financial year, the Group's five largest suppliers accounted for less than 30% of the Group's total purchases. The Group's largest supplier accounted for 7% of the Group's total purchases for the year.

**SUBSEQUENT EVENT**

Detail of the subsequent events is set out in note 33 to the accounts.

**AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment at a fee to be determined by the Board.

On behalf of the Board

**V-nee YEH**

*Chairman*

Hong Kong SAR, 4th July, 2003