

The Directors are pleased to present their annual report and the audited financial statements of the Group and the Company for the year ended 31st December, 2003.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2003 are set out in notes 45, 46 and 47 to the financial statements respectively.

## RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 22 and in the accompanying notes to the financial statements.

The Directors do not recommend the payment of a final dividend.

## FIXED ASSETS

During the year, the Group spent HK\$14,788,000 on fixed assets, and acquired a further HK\$33,000,000 of fixed assets on the acquisition of a subsidiary. In addition, certain of the Group's properties held for sale with a carrying value of HK\$252,102,000 were transferred to investment properties. The Group disposed of certain of its fixed assets with a net carrying value of HK\$3,374,000.

The Group's investment properties were revalued on 31st December, 2003 at HK\$2,168,073,000. The resulting net revaluation deficit of HK\$6,145,000 has been charged to the income statement.

Details of these and other movements in fixed assets of the Group during the year are set out in note 14 to the financial statements.

## PROPERTIES UNDER DEVELOPMENT

The Group has invested in certain property development projects in Hong Kong and the United States of America. Additional expenditure incurred during the year amounted to HK\$14,939,000. An impairment loss of HK\$12,200,000 has been recognised in respect of these properties.

Details of these and other movements in the properties under development of the Group during the year are set out in note 18 to the financial statements.

## PROPERTIES

Particulars of major properties of the Group as at 31st December, 2003 are set out on pages 87 and 88.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the financial statements.

#### SHARE OPTION SCHEMES

Particulars of each of the share option schemes of the Company and its subsidiary, Allied Properties, are set out in note 29 to the financial statements.

#### DIRECTORS

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

##### *Executive Directors:*

Lee Seng Hui  
Edwin Lo King Yau

##### *Non-Executive Directors:*

Lee Su Hwei  
Arthur George Dew

##### *Independent Non-Executive Directors:*

Gordon Macwhinnie  
Wong Po Yan  
David Craig Bartlett  
John Douglas Mackie (appointed on 1st February, 2004)

In accordance with Article 105(A) of the Company's Articles of Association, Messrs. Arthur George Dew and Wong Po Yan will retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article 96 of the Company's Articles of Association, Mr. John Douglas Mackie, who has been appointed since the last Annual General Meeting and before the date of this report, will retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-appointment as Director.

#### DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

#### TERMS OF OFFICE FOR THE NON-EXECUTIVE DIRECTORS

The terms of office of the Non-Executive Directors (including Independent Non-Executive Directors) are subject to re-appointment or retirement by rotation in accordance with Articles 96 and 105(A) of the Company's Articles of Association.

**DIRECTORS' INTERESTS**

At 31st December, 2003, Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, had the following interests in the shares of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO"):

<b>Name of Director</b>	<b>Number of shares held</b>	<b>Approximate % of the issued share capital</b>	<b>Nature of interest</b>
Lee Seng Hui	1,019,066,142	38.35%	Personal interest (held as beneficial owner) in 229,216 shares and other interest in 1,018,836,926 shares (Note 1)
Lee Su Hwei	1,018,836,926	38.34%	Other interest (Note 1)

Notes:

1. Mr. Lee Seng Hui and Ms. Lee Su Hwei are trustees of Lee and Lee Trust, being a discretionary trust which indirectly held 1,018,836,926 shares of the Company.
2. All interests stated above represent long positions.

Save as disclosed above, at 31st December, 2003, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

**DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

During the year and up to the date of this report, Messrs. Lee Seng Hui, Arthur George Dew, Edwin Lo King Yau and Ms. Lee Su Hwei, Directors of the Company (not being the Independent Non-Executive Directors), are considered to have interests in the following competing businesses pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"):

- (i) Mr. Lee Seng Hui and Ms. Lee Su Hwei are two of the trustees of Lee and Lee Trust which is a deemed substantial shareholder of each of Allied Properties, Sun Hung Kai, Tian An and Lippo Limited ("Lippo") which, through their subsidiaries, are partly engaged in the businesses as follows:
  - Allied Properties, through a subsidiary, is partly engaged in the business of money lending;
  - Sun Hung Kai, through certain of its subsidiaries, are partly engaged in the businesses of money lending, provision of financial services and property investment;
  - Tian An, through a subsidiary, is partly engaged in the business of money lending; and

**DIRECTORS' INTERESTS IN COMPETING BUSINESSES (CONT'D)**

- Lippo, through its subsidiaries and associate, is partly engaged in the businesses of securities broking, securities trading, money lending, provision of financial, insurance as well as other related services and property development and investment;
- (ii) Mr. Arthur George Dew is a director of Sun Hung Kai which, through certain of its subsidiaries, are partly engaged in the businesses of money lending, provision of financial services and property investment; and
- (iii) Mr. Edwin Lo King Yau is a director of Tian An which, through a subsidiary, is partly engaged in the business of money lending.

As the Board of Directors of the Company is independent from the boards of the abovementioned companies and none of the above Directors can control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

**DIRECTORS' INTERESTS IN CONTRACTS**

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

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate with the exception of granting of share options to subscribe for shares in the Company and its subsidiary, Allied Properties, under their respective share option schemes.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS**

At 31st December, 2003, the following shareholders had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Number of shares held	Approximate % of the issued share capital	Notes
Cashplus Management Limited ("Cashplus")	260,390,000	9.80%	–
Zealous Developments Limited ("Zealous")	260,390,000	9.80%	1, 2
Minty Hongkong Limited ("Minty")	758,446,926	28.54%	–
Lee and Lee Trust	1,018,836,926	38.34%	3, 4
China Online (Bermuda) Limited ("China Online")	208,200,944	7.83%	5

Notes:

1. This represents the same holding of 260,390,000 shares held by Cashplus.
2. Cashplus was wholly owned by Zealous and Zealous was therefore deemed to have an interest in the shares held by Cashplus.
3. Minty and Zealous are wholly owned by the trustees of Lee and Lee Trust, being a discretionary trust.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONT'D)**

4. Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, together with Mr. Lee Seng Huang are trustees of the Lee and Lee Trust and were therefore deemed to have an interest in the shares in which Minty and Zealous were interested.
5. This represents the holding of: (i) 133,647,704 shares held by Classic Fortune Limited ("Classic Fortune") and Honest Opportunity Limited ("Honest Opportunity"), direct and indirect wholly-owned subsidiaries of China Online respectively; and (ii) 74,553,240 shares held by Besford International Limited ("Besford") and Focus Clear Limited ("Focus Clear"), direct and indirect wholly-owned subsidiaries of China Online respectively. Therefore, China Online was deemed to have an interest in the shares in which Classic Fortune, Honest Opportunity, Besford and Focus Clear were interested.

As at the date of this report and according to the register as required to be kept by the Company under Section 336 of the SFO, China Online had notified the Company that, at 8th January, 2004, it was interested in 213,848,944 shares of the Company (representing 8.05% of the issued share capital) of which 2,202,000 shares were acquired before the year end date. Thus, at 31st December, 2003, China Online was interested in 210,402,944 shares of the Company (representing 7.91% of the issued share capital).

6. All interests stated above represent long positions.

Save as disclosed above, the Company had not been notified of any other person who had an interest or a short position in any shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO at 31st December, 2003.

**CONNECTED TRANSACTIONS**

- (a) During the year, AG Capital Limited, a wholly-owned subsidiary of the Company which is engaged in the business of money lending, granted and renewed an unsecured standby facility of not exceeding HK\$300 million ("Facility") to UAF. UAF is an indirect subsidiary of the Company and the attributable proportion of its issued share capital held by the Group at 31st December, 2003 was 54.98%.

The purpose of the Facility was to provide general working capital to UAF. The Facility had not been drawn upon by UAF during the year under review. Loans granted under the Facility bear interest at a normal commercial rate of 3.5% over Hong Kong prime interest rate per annum and a commitment fee of 0.25% per annum is charged on the daily undrawn portion of the Facility.

Sir Gordon Macwhinnie and Mr. Lee Seng Hui, being Directors of the Company, are also directors of UAF.

- (b) As disclosed in the joint announcement of the Company and Allied Properties dated 30th December, 2003, a tenancy agreement ("Tenancy Agreement") was entered into on 24th December, 2003 between the Company, as the tenant, and Hillcrest Development Limited, an indirect non wholly-owned subsidiary of the Company, as the landlord, for the renewal of a lease of 60 Plantation Road, The Peak, Hong Kong for a term of two years commencing from 1st January, 2004 to 31st December, 2005 at a monthly rental of HK\$200,000 (exclusive of rates and management fee). The rental was based on the prevailing market rental as reviewed by an independent firm of international property consultants. The Directors (including the Independent Non-Executive Directors) of the Company were of the view that the terms and conditions of the Tenancy Agreement were fair and reasonable so far as the shareholders of the Company were concerned.

The Stock Exchange was of the view that the renewed tenancy constituted a connected transaction of the Company under Rule 14.25(1) of the Listing Rules. Based on the legal advice of the Company's legal advisers and for the sake of prudence, the Company had disclosed the details of the Tenancy Agreement jointly with Allied Properties as a connected transaction of the Company, as requested by the Stock Exchange. The transaction is not subject to shareholders' approval under Rule 14.25(1) of the Listing Rules.

## Report of the Directors (Cont'd)

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company repurchased 750,000,000 shares at a consideration of HK\$0.50 per share (as to HK\$0.15 in cash and HK\$0.35 in the form of loan note) pursuant to a general offer made by Sun Hung Kai International Limited on behalf of the Company which was completed on 16th September, 2003. The aggregate consideration paid for the repurchase of 750,000,000 shares was HK\$375,000,000 (as to HK\$112,500,000 in cash and HK\$262,500,000 in the form of loan notes).

During the year, the Company also made the following purchases of its own shares on the Stock Exchange:

Month of purchase on the Stock Exchange in 2003	Number of shares purchased	Purchase consideration per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
September	596,000	0.500	0.495	296,500
October	840,000	0.500	0.500	420,000
November	1,562,000	0.500	0.490	777,880

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

### DONATIONS

The Group made charitable donations of HK\$430,000 during the year.

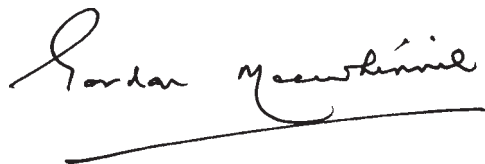
### CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### AUDITORS

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board



**Sir Gordon Macwhinnie**

*Chairman*

Hong Kong, 15th April, 2004