

Report

of the Directors

The directors herein submit their report together with the audited financial statements of the Company and of the Group for the year ended 31 March 2001.

Principal activities

The principal activity of the Company during the year was investment holding.

The principal activities of the subsidiaries, associates and jointly-controlled entities of the Group are international air and sea freight forwarding (including the provision of related global logistics services), general sales of international air cargo space and the development of biotechnological genetic products. There were no changes in the nature of the Group's principal activities during the year.

Subsequent to the year end on 1 April, 2001, the Group's business of general sales of international air cargo space was discontinued. Further details are included in note 5 to the financial statements.

Segmental information

An analysis of the Group's turnover and (contribution)/absorption to loss from operating activities by principal activity and by geographical area for the year ended 31 March 2001 is as follows:

| | Turnover HK\$'000 | 2001 (Contribution)/ absorption to loss from operating activities HK\$'000 | Turnover HK\$'000 | 2000 (Contribution)/ absorption to loss from operating activities HK\$'000 |
|---|----------------------|--|----------------------|--|
| By activity: | | | | |
| International air and sea freight forwarding (including the provision of related global logistics services) | 106,155 | (20,973) | 160,965 | (82,449) |
| Development of biotechnological genetic products | — | (4,212) | — | (173) |
| General sales of international air cargo space (discontinued on 1 April 2001) | 31,630 | 1,839 | 27,050 | 1,769 |
| | <u>137,785</u> | <u>(23,346)</u> | <u>188,015</u> | <u>(80,853)</u> |
| By geographical area: | | | | |
| North and South America | 63,653 | (10,604) | 75,394 | (31,324) |
| Asia and Australia | 58,090 | (8,437) | 78,076 | (32,335) |
| Europe and Africa | 16,042 | (4,305) | 34,545 | (17,194) |
| | <u>137,785</u> | <u>(23,346)</u> | <u>188,015</u> | <u>(80,853)</u> |

Report of the Directors (continued)

Financial results and dividends

The Group's loss for the year ended 31 March 2001 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 60.

The directors do not recommend the payment of any dividends in respect of the year ended 31 March 2001.

Summary financial information

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 17. This summary is not part of the audited financial statements.

Fixed assets and investment property

Details of movements in the fixed assets and investment property of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 15 to the financial statements.

Jointly-controlled entity and associate

Particulars of the Company's jointly-controlled entity and associate are set out in notes 16 and 17, respectively, to the financial statements.

Borrowings

Details of the Group's borrowings at 31 March 2001 are set out in notes 24 and 26 to the financial statements.

Share capital, share warrants and share options

Details of the Company's share capital, share warrants and share options, together with their movements during the year and subsequent to the balance sheet date, are set out in note 29 to the financial statements.

Report of the Directors (continued)

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements.

Distributable reserves

At 31 March 2001, the Company did not have any reserves available for cash distribution or distribution in specie. However, the Company's share premium account in the amount of HK\$55,578,000 (2000: HK\$33,635,000) may be used for the issue of fully paid bonus shares.

Major suppliers and customers

Purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year (2000: less than 30%).

Sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year (2000: less than 30%).

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 share capital, has any interests in the Group's five largest customers or suppliers.

Report of the Directors (continued)

Directors

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

Executive directors

Pak Chung

Sun Ching Wai (appointed on 27 April 2000)

Yeung Chak Sang (appointed on 31 October 2000)

Ting Leung Tak (appointed on 31 October 2000 and resigned on 19 June 2001)

Kwok Kwan Hung (resigned on 15 September 2000)

Independent non-executive directors

Robert Chan Yee Hoi

Chung Kwo Ling (appointed on 21 June 2000)

Chan Chiu Kwok (resigned on 1 September 2000)

Sammy Ho Wai Yu (resigned on 10 April 2000)

In accordance with the Company's bye-laws, Robert Chan Yee Hoi and Yeung Chak Sang will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The terms of appointment of the independent non-executive directors will expire when they are required to retire by rotation in accordance with the Company's bye-laws.

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 other than statutory compensation.

Report of the Directors (continued)

Directors' interests in the share capital of the Company and its associated corporations

At the balance sheet date, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register required to be kept pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were set out below.

Ordinary shares of the Company

| Name of director | Number of shares held and nature of interest | | | Total |
|------------------|--|--------------------------------|--------------------------------|-------------|
| | Personal Interest | Corporate interest | Interest in concert | |
| Pak Chung | 11,982,000 | 355,018,760 <i>(note 1)</i> | 61,100,000 <i>(note 2)</i> | 428,100,760 |
| Sun Ching Wai | 61,100,000 | Nil | 367,000,760 <i>(note 2)</i> | 428,100,760 |
| Yeung Chak Sang | 180,000 | Nil | Nil | 180,000 |
| Ting Leung Tak | 200,000 | Nil | Nil | 200,000 |

Note:

1. Pak Chung has corporate interest in the Company's shares through Fortune Garden Investments Limited, which is wholly and beneficially owned by him.
2. Pak Chung and Sun Ching Wai are acting in concert.

Subsequent to the year end, the Company's shares held by Yeung Chak Sang were disposed of in May 2001.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' interests in contracts

Except for those transactions set out in note 32 to the financial statements, no director had a material beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Report of the Directors (continued)

Substantial shareholders

Save as disclosed above under the section headed "Directors' interests in the share capital of the Company and its associated corporations", at the balance sheet date, no person had registered as having an interest of 10% or more in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Directors' rights to acquire shares

The Company has a share option scheme, approved in a special general meeting on 5 March 1996, under which the directors may, at their discretion, invite any employee or executive director of the Group to take up options to subscribe for shares in the Company, exercisable for a period of four and a half years commencing on the expiry of six months after the date on which the option is granted.

Particular of share options held by the directors during the year are as follows:

| Name of director | Number of options held at 1 April 2000 | Granted during the year | Lapsed/cancelled during the year | Number of options held at 31 March 2001 | Exercise period | Exercise price per share, subject to adjustment |
|------------------|--|-------------------------|----------------------------------|---|----------------------------------|---|
| Pak Chung | — | 2,000,000 | — | 2,000,000 | 17 May 2001 to 17 November 2005 | HK\$0.1440 |
| | — | 9,594,000 | (9,594,000) | — | — | HK\$0.2400 |
| Sun Ching Wai | — | 1,000,000 | — | 1,000,000 | 17 May 2001 to 17 November 2005 | HK\$0.1440 |
| | — | 2,000,000 | (2,000,000) | — | — | HK\$0.2400 |
| Kwok Kwan Hung | — | 2,000,000 | (2,000,000) | — | — | HK\$0.2400 |
| Yeung Chak Sang | 500,000 | — | — | 500,000 | 7 September 2000 to 7 March 2005 | HK\$0.2500 |
| | — | 450,000 | — | 450,000 | 17 May 2001 to 17 November 2005 | HK\$0.1440 |
| | — | 100,000 | (100,000) | — | — | HK\$0.2400 |
| | — | 3,298,000 | — | 3,298,000 | 11 October 2000 to 11 April 2005 | HK\$0.2950 |
| Ting Leung Tak | 300,000 | — | — | 300,000 | 7 September 2000 to 7 March 2005 | HK\$0.2500 |
| | — | 350,000 | — | 350,000 | 17 May 2001 to 17 November 2005 | HK\$0.1440 |
| | — | 50,000 | (50,000) | — | — | HK\$0.2400 |
| | — | 200,000 | — | 200,000 | 11 October 2000 to 11 April 2005 | HK\$0.2950 |
| | <u>800,000</u> | <u>21,042,000</u> | <u>(13,744,000)</u> | <u>8,098,000</u> | | |

Report of the Directors (continued)

Purchase, sale or redemption of listed securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2001.

Connected transactions

Other than as disclosed in note 32 to the financial statements, the Company had the following connected transaction.

On 8 September 2000, Starglow International Limited ("Starglow"), a wholly-owned subsidiary of the Group, entered into an agreement to increase the registered paid-up capital of Nanjing E-Life Gene Technology Company ("E-Life Gene"), a former subsidiary of Starglow, from US\$1,620,000 (approximately HK\$12,636,000) to US\$6,024,000 (approximately HK\$46,987,000) (the "Capital Injection"). Prior to the completion of the Capital Injection, the paid-up capital of E-life Gene was held as to approximately 61.7% by Starglow, 30.9% by Jiangsu Hi-Tech Venture Capital Co. ("Jiangsu VC") and 7.4% by Jingling Recreation Club. Upon completion of the Capital Injection, the Group's beneficial interest in E-Life Gene was diluted from 61.7% to 51%. By virtue of Jiangsu VC's substantial shareholding interest in E-Life Gene, the Capital Injection constituted a connected transaction as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The transaction was approved by the independent shareholders of the Company at the special general meeting held on 3 November 2000.

Pension scheme

Details of the Group's pension schemes are set out in notes 3 and 6 to the financial statements.

Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the financial year except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

Report of the Directors (continued)

Audit committees

Pursuant to board meetings held on 24 and 30 September 1999, an audit committee (the "Committee") was established with Sammy Ho Wai Yu appointed as the chairman, Chan Chiu Kwok and Kwok Kwan Hung appointed as members in accordance with the requirement of the Listing Rules. Pursuant to the board meeting held on 21 June 2000, Chung Kwo Ling was appointed as the chairman of the audit committee in replacement of Sammy Ho Wai Yu who had resigned as independent non-executive director of the Company. Pursuant to the board meeting held on 2 September 2000, Robert Chan Yee Hoi was appointed as a member of the audit committee in place of Chan Chiu Kwok who had resigned as independent non-executive director of the Company. Kwok Kwan Hung resigned as executive director and member of the audit committee on 15 September 2000. The scope of authority and responsibility of the Committee is defined according to the guidance issued by the Hong Kong Society of Accountants. The Committee's principal duties are to assist the directors of the Company in providing an independent review of the effectiveness of the financial reporting process and internal controls of the Group.

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.

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

Pak Chung

Chairman

Hong Kong
9 August 2001