

Spa Dén



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 12 to the accounts. An analysis of the Group's performance for the year by business is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 22.

The Directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$5,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the accounts.

DISTRIBUTABLE RESERVES

At 31 December 2002, the distributable reserves of the Company available for distribution as dividend amounted to HK\$83,032,000, representing by the contributed surplus of HK\$213,978,000 after compensating the accumulated losses of HK\$130,946,000. Under the Company Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 54.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The Directors during the year were:

Executive Directors:

Mr. Fong Yock Yee	(resigned on 1 July 2002)
Mr. ChanYuk Sang	(resigned on 1 August 2002)
Mr. Tsang Chiu Ching	
Mr. Tsang Chiu Mo Samuel	
Ms. Chu Ming Tak Evans Tania	

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Independent Non-Executive Directors:

Mr. Szeto King Pui Albert

Mr. Yu Yun Kong

Mr. Cheung Ka Wai

(appointed on 1 November 2002)

In accordance with Bye-law 87 of the Company's Bye-laws, all Directors retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Szeto King Pui Albert, one of the Independent Non-Executive Directors of the Group, is a partner of Chiu, Szeto & Cheng Solicitors, a firm of solicitors in Hong Kong which provides legal and professional services to the Group and receives professional fees for such services at market rates.

Save as disclosed above, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company 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 year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are set out below.

Executive Directors:

Mr. Tsang Chiu Ching, aged 27, brother of the Company's Executive Director, Mr. Tsang Chiu Mo Samuel, was appointed Executive Director in September 1999. He is responsible for the evaluation and implementation of business development strategies, as well as investment activities. Mr. Tsang is also a director of Century Legend Limited, a substantial shareholder of the Company as well as a director of China Sky Finance Limited.

Before joining the Group, Mr. Tsang worked in a finance company responsible for corporate finance functions, direct investments and project financing.

Mr. Tsang Chiu Mo Samuel, aged 30, brother of the Company's Executive Director, Mr. Tsang Chiu Ching, was appointed Executive Director in September 1999. He is responsible for the Group's strategic planning, business development and corporate finance portfolio. Mr. Tsang is a director of Century Legend Limited, a substantial shareholder of the Company as well as a director of China Sky Finance Limited.

Mr. Tsang received his tertiary education in Canada. Prior to joining the Group, he has gained broad experience working with international firms in building construction, hotel management, financing and strategic investment.

Ms. Chu Ming Tak Evans Tania, aged 45, joined the Group in 1999 and was appointed Executive Director in January 2001. She is responsible for overseeing the Group's financial and investment related activities.

Ms. Chu received her tertiary education in Canada. Prior to joining the Group, she had more than 11 years of experience working in the financial field of various commercial enterprises both in Hong Kong and Canada.

Independent Non-Executive Directors:

Mr. Szeto King Pui Albert, aged 48, was appointed an Independent Non-Executive Director in January 2000. He is also the Company Secretary.

Mr. Szeto is a qualified solicitor in England and Wales and Hong Kong and a partner of Chiu, Szeto and Cheng Solicitors in Hong Kong.

Mr. Yu Yun Kong, aged 36, was appointed an Independent Non-Executive Director in January 2001.

Mr. Yu is a Certified Public Accountant with over 14 years of experience in public accounting practice. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. Cheung Ka Wai, aged 33, was appointed an Independent Non-Executive Director in November 2002. He is currently working as a finance manager in an international corporation which provides financial management services.

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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2002, the interests of the Directors and Chief Executive in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of the Directors	Number of shares in the Company beneficially held			
	Personal interests	Corporate interests	Family interests	Other interests
Mr. Tsang Chiu Ching	960,000	(note (a))	—	—
Mr. Tsang Chiu Mo Samuel	—	(notes (a) & (b))	—	—

Note:

- (a) 868,389,900 shares were held by Century Legend Limited (“Century Legend”), which is owned as to 5% by Mr. Tsang Chiu Ching and 5% by Mr. Tsang Chiu Mo Samuel respectively.
- (b) On 18 October 2001, Mr. Ng Kwan (“Mr. Ng”) and Madam Fu Cheng Wai (“Madam Fu”) entered into an option agreement (“Option Agreement”) with Mr. Tsang Chiu Mo Samuel (“Mr. Tsang”) pursuant to which Mr. Ng and Madam Fu each agreed to grant certain call options (“Call Options”) to Mr. Tsang and Mr. Tsang agreed to grant to each of Mr. Ng and Madam Fu certain put options (“Put Options”).

Originally, the options were exercisable at any time from the date of the Option Agreement and prior to 17 April 2002. By way of a supplemental agreement dated 16 April 2002 (“Supplemental Agreement”), the expiration date was extended to 17 April 2003.

Pursuant to the Option Agreement and the Supplemental Agreement, Mr. Tsang had the right to require each of Mr. Ng and Madam Fu to sell to him (or his nominee) 390,775,455 shares of the Company (“Company Option Shares”) at a total consideration of HK\$10,160,161.83, equivalent to HK\$0.026 per Company Option Share.

Mr. Tsang also had the right to require each of Mr. Ng and Madam Fu to sell to him (or his nominee) their respective interests in 22,500 shares in the issued share capital of Century Legend (“CLL Option Shares”) for a consideration of HK\$10,160,161.83 payable to each of Mr. Ng and Madam Fu.

Each of Mr. Ng and Madam Fu had the right to require Mr. Tsang to purchase the Company Option Shares from Mr. Ng and Madam Fu for a total consideration of HK\$10,160,161.83, equivalent to HK\$0.026 per Company Option Share.

Each of Mr. Ng and Madam Fu also had the right to require Mr. Tsang to purchase the CLL Option Shares from Mr. Ng and Madam Fu for a consideration of HK\$10,160,161.83 payable to each of Mr. Ng and Madam Fu.

Both Call Options and Put Options must be exercised prior to 17 April 2003 or any other date as might be agreed by all parties to the Option Agreement and the Supplemental Agreement, after which the Put Options and the Call Options lapsed. None of the Call Options or Put Options was exercised and the Option Agreement as amended by the Supplemental Agreement expired on 17 April 2003.

Save as disclosed above, at no time during the year, the Directors and Chief Executive (including their spouse and children under 18 years of age) of the Company had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance).

At no time during the year was the Company, its subsidiaries or its holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the Directors and Chief Executive as disclosed above.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The five major customers of the Group were attributable to the money lending business and general merchandise trading business. The five major suppliers of the Group were attributable to travel agency business, general merchandise trading business and health and beauty services. The percentages of the sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales	
— the largest customer	4%
— five largest customers combined	10%
Purchases	
— the largest supplier	85%
— five largest suppliers combined	94%

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) had an interest in the major customers or suppliers noted above.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), save that the Independent Non-Executive Directors were not appointed for a specific term but subject to retirement by rotation in annual general meetings of the Company in accordance with the Bye-laws of the Company.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two Independent Non-Executive Directors, namely Mr. Szeto King Pui Albert and Mr. Yu Yun Kong. One meeting was held during the current financial year.

DIRECTORS’ INTEREST IN COMPETING BUSINESS

Set out below is information disclosed pursuant to paragraph 8.10(2) of the Listing Rules:—

Mr. Tsang Chiu Ching and Mr. Tsang Chiu Mo Samuel are the directors of China Sky Finance Limited (“China Sky”). The provision of personal and commercial loan service of China Sky constitutes a competing business to the Group.

SUBSEQUENT EVENTS

Details of significant subsequent events are set out in note 27 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Tsang Chiu Mo Samuel
Executive Director

Hong Kong, 23 April 2003