



## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended 31st March, 2003.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its subsidiaries are set out in note 37 to the financial statements. Details of the discontinuing operations are disclosed in note 10 to the financial statements.

### RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 16.

No dividend was paid during the year.

### SHARE CAPITAL

In order to finance the development of Group's property in Hong Kong and general working capital, arrangements were made for a private placement to independent investors of 390,000,000 new shares of the Company of HK\$0.10 each at a placing price of HK\$0.10 per share. These shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 28th September, 2001 and rank pari passu with other shares in issue in all respects.

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 20 and note 26 to the financial statements, respectively.

### INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31st March, 2003 as set out in note 13 to the financial statements. The deficit arising on revaluation amounting to HK\$1,500,000 has been charged to the consolidated income statement.

## DIRECTORS' REPORT

### PROPERTY, PLANT AND EQUIPMENT

During the year, certain of the Group's leasehold land and buildings with a net book value of approximately HK\$164,000 were disposed of. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

### PROPERTIES UNDER DEVELOPMENT

During the year, the carrying value of the properties under development was transferred to properties held for sale. Details of these movements in the properties under development of the Group during the year are set out in note 17 to the financial statements.

### PRINCIPAL PROPERTIES

Particulars of the Group's principal properties as at 31st March, 2003 are set out on page 67.

### DIRECTORS AND SERVICE CONTRACTS

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

#### Executive directors:

Mr. Tse Cho Tseung ( <i>Chairman</i> )	
Ms. Lin Fung Yi ( <i>Deputy Chairman</i> )	(appointed on 9th January, 2003)
Mr. Ding Chung Keung, Vincent ( <i>Managing Director</i> )	(appointed on 9th January, 2003)
Mr. Tam Cheuk Ho ( <i>Deputy Chairman</i> )	(appointed on 15th May, 2002 and resigned on 28th April, 2003)
Mr. Li Yun Hoi ( <i>Managing Director</i> )	(resigned on 9th January, 2003)
Mr. Cheng Chak Hung, Ian	(resigned on 15th May, 2002)

#### Independent non-executive directors:

Mr. Kwok Ka Lap, Alva	
Mr. Wong Chi Keung, Alvin	(appointed on 20th May, 2003)
Mr. Ho Kin Cheong, Kelvin	(resigned on 20th May, 2003)

#### Non-executive director:

Mr. Liu Ren Shung	(vacated on 12th June, 2002)
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## DIRECTORS' REPORT

### DIRECTORS AND SERVICE CONTRACTS (Cont'd)

In accordance with Clause 86(2) of the Company's Bye-laws, Messrs. Ding Chung Keung, Vincent, Wong Chi Keung, Alvin and Ms. Lin Fung Yi who were appointed during the period from the last annual general meeting to the date of this report will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

### DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2003, the interests of the directors of the Company and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

At 31st March, 2003, the following directors had interests in the issued share capital of the Company:

	<b>Personal interests</b>	<b>Corporate interests</b>
Mr. Tse Cho Tseung	–	552,063,921 (Note)
Mr. Ding Chung Keung, Vincent	260,000	–
Ms. Lin Fung Yi	20,000	–

*Note:* These shares are beneficially owned by Lunghin Enterprise Inc. ("Lunghin"), a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung.

Save as disclosed above, none of the directors of the Company or any of their associates had any interests in any securities of the Company or any of its subsidiaries or associated corporations within the meaning of the SDI Ordinance as recorded in the register kept by the Company under section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## DIRECTORS' REPORT

### SHARE OPTIONS

There are two share option schemes adopted by the Company on 28th February, 1994 (the "1994 Scheme") and on 26th August, 2002 (the "2002 Scheme"). Pursuant to a resolution passed on 26th August, 2002, the 1994 Scheme was terminated. There was no option granted under the 2002 Scheme since its adoption.

Particulars of the Company's share option schemes are set out in note 25 to the financial statements.

The following table discloses movements in the 1994 Scheme of the Company during the year:

	Date of grant	Exercise price HK\$	Number of share options of the Company		
			Outstanding at 1.4.2002	Cancelled during the year	Outstanding at 31.3.2003
Category 1: Directors					
Mr. Cheng Chak Hung, Ian*	30.4.1997	0.792	3,360,000	(3,360,000)	–
	19.6.1997	1.092	480,000	(480,000)	–
	25.11.1998	0.105	1,320,000	(1,320,000)	–
	20.12.1999	0.128	1,440,000	(1,440,000)	–
	14.3.2000	0.330	1,200,000	(1,200,000)	–
	26.8.2000	0.191	1,000,000	(1,000,000)	–
Mr. Liu Ren Shung*	14.3.2000	0.330	6,200,000	–	<b>6,200,000</b>
Mr. Ding Chung Keung, Vincent**	30.4.1997	0.792	960,000	–	<b>960,000</b>
	2.5.1997	0.825	480,000	–	<b>480,000</b>
	25.11.1998	0.105	440,000	–	<b>440,000</b>
	20.12.1999	0.128	1,500,000	–	<b>1,500,000</b>
	14.3.2000	0.330	1,200,000	–	<b>1,200,000</b>
Total directors			<u>19,580,000</u>	<u>(8,800,000)</u>	<u><b>10,780,000</b></u>



## DIRECTORS' REPORT

### SHARE OPTIONS (Cont'd)

	Date of grant	Exercise price HK\$	Number of share options of the Company		
			Outstanding at 1.4.2002	Cancelled during the year	Outstanding at 31.3.2003
Category 2: Employees					
Other employees	30.4.1997	0.792	7,524,000	(7,404,000)	120,000
Other employees	19.6.1997	1.092	1,464,000	(1,296,000)	168,000
Other employees	2.2.1998	0.100	611,000	(500,000)	111,000
Other employees	25.11.1998	0.105	3,520,000	(3,520,000)	–
Other employees	17.11.1999	0.117	290,000	(80,000)	210,000
Other employees	20.12.1999	0.128	5,340,000	(5,340,000)	–
Other employees	14.3.2000	0.330	3,840,000	(3,340,000)	500,000
Other employees	26.8.2000	0.191	1,000,000	(1,000,000)	–
Total employees			<u>23,589,000</u>	<u>(22,480,000)</u>	<u>1,109,000</u>
Total all categories			<u>43,169,000</u>	<u>(31,280,000)</u>	<u>11,889,000</u>

\* The directors resigned/vacated during the year

\*\* The director was appointed during the year

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its 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 debentures of, the Company or any other body corporate. In addition, none of the directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company or had exercised any such right during the year.

## DIRECTORS' REPORT

### CONNECTED TRANSACTIONS

- (a) During the year, Master Super Development Limited ("Master Super"), a 60% owned subsidiary of the Company, obtained additional shareholders' loans of approximately HK\$36,700,000 from the Group and two shareholder companies controlled by Mr. Wong Chun Hong ("Mr. Wong"), an ex-director of the Company. At 31st March, 2003, the outstanding balance of the loans from the Group and the shareholder companies amounted to approximately HK\$164,636,000 and HK\$109,758,000, respectively.

The loans are unsecured, interest free, repayable on demand and made on a pro rata basis with reference to the equity holding in Master Super.

In addition, Mr. Wong and the Company have given guarantees amounting to HK\$194,000,000 in favour of a bank to secure banking facilities granted to Master Super. The guarantees were given on a pro rata basis with reference to the equity holding in Master Super without consideration.

- (b) In July 2002, Cheung Tai Hong Holdings (Property) Limited ("CTH Property"), a wholly-owned subsidiary of the Company, entered into an agreement with Master Super to cancel the purchase of a commercial unit in Talon Tower, Sheung Wan. During the year, Master Super repaid a deposit of HK\$950,000, together with the interest accrued thereon to CTH Property.
- (c) In April 1999, the Group entered into a lease agreement with Mr. Lee Sai Kai, David ("Mr. Lee"), an ex-director of the Company, under which an investment property of the Group was leased to Mr. Lee for a period of three years commencing 1st August, 1999 for a monthly rental of HK\$17,000 exclusive of rates and management fee. In November 2001, the Group entered into a new lease agreement with Mr. Lee for the lease of the same premises for a period of two years commencing 1st August, 2002 for a monthly rental of HK\$30,000 exclusive of rates and management fee. The rental income received by the Group during the year amounting to HK\$244,000.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section headed "Connected Transactions" above, no other contract of significance to which the Company or any of 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 year or at any time during the year.





## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDER

At 31st March, 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following persons had an interest of 10% or more of the issued share capital of the Company:

Name of person	Number of shares held	Percentage of issued share capital
Lunghin	552,063,921	23.55%

Mr. Tse Cho Tseung is interested in the 552,063,921 shares in the Company held by Lunghin by virtue of his 100% beneficial interest in the issued share capital of Lunghin. Details of the interest are disclosed under the section headed "Directors' Interests in Securities" above.

Pursuant to a loan agreement and a share mortgage agreement, both dated 29th October, 2001, entered into between Lunghin as the borrower and Loyal Concept Limited ("Loyal Concept") as the lender, Loyal Concept agreed to grant a loan facility to Lunghin subject to, inter alia, Lunghin agreed to pledge 448,500,000 shares of HK\$0.10 each in the capital of the Company, to secure the loan facility. Loyal Concept is a wholly-owned subsidiary of Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics BVI") which in turn is a wholly-owned subsidiary of Hanny Holdings Limited.

Pursuant to another share mortgage agreement dated 24th April, 2002, entered into between Lunghin as the borrower and Hanny Magnetics Limited ("Hanny Magnetics") as the lender, Hanny Magnetics agreed to grant a loan facility to Lunghin subject to, inter alia, Lunghin agreed to pledge 103,560,000 shares of HK\$0.10 each in the capital of the Company, to secure the loan facility. Hanny Magnetics is a wholly-owned subsidiary of Hanny Magnetics BVI.

Other than as disclosed above, the Company has not been notified of any other interest representing 10% or more of the issued share capital of the Company as at 31st March, 2003.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2003, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 61% of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 28% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 94% of the Group's total purchases and the purchase attributable to the Group's largest supplier was approximately 58% of the Group's total purchases.



## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS (Cont'd)

None of the directors, their associates or any shareholders (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 or suppliers.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

### 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 the existing shareholders.

### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

### DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$33,000.

### POST BALANCE SHEET EVENT

Details of the significant post balance sheet event are set out in note 36 to the financial statements.

### AUDITORS

A resolution will be submitted to 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

**TSE CHO TSEUNG**

*Chairman*

Hong Kong, 11th July, 2003