

## REPORT OF THE DIRECTORS

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

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 36 and 16 to the financial statements, respectively. Details of the discontinuing operations are disclosed in note 9 to the financial statements.

### RESULTS

The results of the Group for the year ended 31st March, 2003 are set out in the consolidated income statement on page 21.

The directors do not recommend the payment of a dividend for the year ended 31st March, 2003.

### INVESTMENT PROPERTIES

The Group's investment properties were revalued on 31st March, 2003 at HK\$74.2 million. Of the deficit arising on the revaluation amounting to approximately HK\$29.2 million, approximately HK\$22.3 million has been charged to the investment property revaluation reserve and the remaining balance of HK\$6.9 million, being the excess of the deficit over the balance on the revaluation reserve, has been charged to the income statement.

Details of these and other movements in the investment properties of the Group during the year are set out in note 12 to the financial statements.

Particulars of the major investment properties of the Group at 31st March, 2003 are set out on page 78.

### PROPERTY, PLANT AND EQUIPMENT

During the year, property, plant and equipment with an aggregate net book value of approximately HK\$232.3 million was acquired as a result of the acquisition of subsidiaries.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

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### PRINCIPAL SUBSIDIARIES AND ASSOCIATES

In July 2002, the Group acquired 51% issued share capital of Shanghai Hualong Construction Stock Co., Ltd. (“Shanghai Hualong Construction”) (上海華龍建設股份有限公司) for a cash consideration of approximately HK\$44.2 million. Shanghai Hualong Construction is a sino-foreign joint venture company established in the People’s Republic of China (“PRC”) with limited liability and is engaged in the business of property development and sales in the PRC.

In December 2002, the Group acquired 51% issued share capital of Gold United International Industries Limited (“Gold United”) for a consideration of approximately HK\$85.0 million. The consideration including incidental cost was settled by cash in the amount of HK\$35 million and by the issue of 240,000,000 new shares in the Company at HK\$0.229 per share. Gold United is an investment holding company which is incorporated in Hong Kong and holds an 80% equity interest in 杭州恒運交通開發有限公司 (「杭州恒運」). 杭州恒運 is a sino-foreign joint venture company established in the PRC with limited liability and is engaged in the business of toll highway operation.

Details of the Group’s principal subsidiaries and principal associates at 31st March, 2003 are set out in notes 36 and 16 to the financial statements, respectively.

### SHARE CAPITAL AND WARRANTS

Details of movements in share capital and outstanding warrants of the Company during the year are set out in notes 23 and 25 to the financial statements.

### DIRECTORS

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

#### Executive directors:

Dong Bo, Frederic (*Chairman*)  
Lau Man Tak

#### Independent non-executive directors:

Kan Kwok Shu  
Shum Ka Hei

In accordance with Clause 86(2) of the Company’s bye-laws, all directors retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

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

## REPORT OF THE DIRECTORS

### DIRECTORS *(Continued)*

None of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2003, the interests of the directors and their associates in the share capital of the Company and of 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:

<b>Name of director</b>	<b>Number of ordinary shares held as corporate interest <i>(note)</i></b>
Dong Bo, Frederic	892,738,350

*Note:* United Jumbo Limited ("United Jumbo") holds the 892,738,350 shares of the Company and is beneficially wholly-owned by Dong Bo, Frederic.

Save as disclosed above, none of the directors or their associates had any interests in any securities of the Company or any of its subsidiaries or its 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").

### SHARE OPTIONS

The Company has two share option schemes which were adopted on 9th April, 2001 (the "2001 Scheme") and 24th April, 2002 (the "2002 Scheme"), respectively. Particulars of these schemes and details of the directors' interests in share options to subscribe for shares in the Company are set out in note 24 to the financial statements.

Under the 2001 Scheme, a total of 45,000,000 options were cancelled during the year. Also, there was no outstanding share option as at 31st March, 2003 and no share option was granted nor exercised during the year.

**REPORT OF THE DIRECTORS****SHARE OPTIONS** *(Continued)*

Under the 2002 Scheme, a total of 269,930,000, 259,120,000 and 64,780,000 options were granted on 2nd May, 2002, 19th September, 2002 and 9th December, 2002, at exercise prices of HK\$0.298, HK\$0.225 and HK\$0.202 per share to employees of the Group during the year, respectively. The directors of the Company considered that it is not appropriate to value the share options granted under the 2002 Scheme during the year as a number of critical factors for the valuation of the share options granted cannot be determined accurately.

The closing prices of the Company's share immediately before 2nd May, 2002, 19th September, 2002 and 9th December, 2002, the dates of grant of the options, were HK\$0.290, HK\$0.220 and HK\$0.201, respectively.

At 31st March, 2003, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 593,830,000, representing 15.7% of the total number of shares of the Company in issue at that date.

Other than 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 debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Save as disclosed in the section headed "Share Options", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or chief executives, nor any of their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

## REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS

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

Name	Number of shares held	Approximate shareholding percentage
United Jumbo ( <i>Note</i> )	892,738,350	23.67%
Dong Bo, Frederic ( <i>Note</i> )	892,738,350	23.67%

*Note:* Dong Bo, Frederic is the sole beneficial shareholder of United Jumbo and is accordingly deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by United Jumbo.

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

## CONNECTED TRANSACTIONS AND DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

- (a) In January 2002, the Company entered into a subscription agreement (the "Subscription Agreement") with Great Huge Investment Corporation ("Great Huge"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Chen Long ("Mr. Chen"). Pursuant to the Subscription Agreement, Great Huge would subscribe for a total of 74,980,000 new shares of the Company at a subscription price of HK\$0.6 per share, resulting in net proceeds of approximately HK\$44.0 million. Mr. Chen was deemed to be a substantial shareholder of the Company in January 2002.

On the same date, Super Target Limited, a wholly owned subsidiary of the Company entered into a conditional sale and purchase agreement with Great Huge to acquire a 51% interest in Shanghai Hualong Construction in which Mr. Chen has a beneficial interest. Shanghai Hualong Construction is engaged in the business of properties development and sales in the PRC. The total consideration of approximately HK\$44.2 million was determined after arm's length negotiation by reference to the fair market value of the property interest in Shanghai Hualong Construction as at 30th November, 2001. The net proceeds raised from the subscription of shares by Great Huge would principally be used for the acquisition of Shanghai Hualong Construction. The acquisition of Shanghai Hualong Construction was completed in July 2002. The above transactions constituted connected transactions, details of which were set out in the circular dated 1st March, 2002 issued by the Company.

**REPORT OF THE DIRECTORS****CONNECTED TRANSACTIONS AND DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE** *(Continued)*

- (b) As at 31st March, 2003, the Group had pledged a bank deposit of approximately HK\$5.0 million and had given a corporate guarantee amounting to HK\$8.0 million to a bank in respect of credit facilities granted to a non-wholly subsidiary of the Company, Prosper City International Limited ("Prosper City"). At 31st March, 2003, the facilities utilised by Prosper City amounted to approximately HK\$4.9 million.
- (c) The minority shareholder (also a director) of Prosper City pledged certain bank deposits of approximately HK\$6.8 million in respect of other credit facilities granted to Prosper City. At 31st March, 2003, the facilities utilised by Prosper City amounted to approximately HK\$6.3 million.
- (d) During the year ended 31st March, 2003, the Group paid approximately HK\$1.8 million to Prosper City in respect of certain renovation services provided by Prosper City.
- (e) The minority shareholder of Shanghai Hualong Construction and its affiliates had pledged certain properties and given corporate guarantee to certain banks in respect of credit facilities granted to Shanghai Hualong Construction. At 31st March, 2003, the facilities utilised by Shanghai Hualong Construction amounted to approximately HK\$104.5 million.
- (f) At the time of the acquisition of Shanghai Hualong Construction by the Group in July 2002, Shanghai Hualong Construction had an interest in a property project conducted together with an affiliate (the "Affiliate") of the minority shareholder of Shanghai Hualong Construction. It was subsequently agreed in March 2003 between the parties involved that this project was to be undertaken by the Affiliate itself and that the accumulated fund contributed by Shanghai Hualong Construction to this project in the amount of approximately HK\$27,844,000 was to be converted into an interest bearing loan to the Affiliate to be repayable on or before 29th March, 2004. The amount of interest income receivable on this loan for the year was not significant.

Save as disclosed above, no other contracts 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.

## REPORT OF THE DIRECTORS

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers were less than 30% of the Group's sales for the year. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchase for the year.

At no time during the year did the directors, their associates or any shareholders of the Company (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 or suppliers of the Group.

### 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 listed securities of the Company 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 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.

### POST BALANCE SHEET EVENTS

In May 2003, the Company entered into a supplemental agreement with Asean Resources Limited under which the latter agreed to further extend the repayment date of the loan amount of HK\$105,000,000 and the respective accrued interest to November 2003.

### AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Dong Bo, Frederic**  
*Chairman*

Hong Kong, 29th July, 2003