

# DIRECTORS' REPORT

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 principal activities of the Company and its subsidiaries are to hold investments for medium to long-term capital appreciation purposes.

## Results and appropriations

The results of the Group for the year ended 31st March, 2003 are set out in the consolidated income statement on page 22 of the financial statements.

The directors do not recommend the payment of a dividend for the year.

## Property, plant and equipment

Details of movements in property, plant and equipment during the year are set out in note 14 to the financial statements.

## Share capital

Details of movements in the authorised and issued share capital of the Company during the year are set out in note 21 to the financial statements.

## Reserves

Details of 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 25 of and note 22 to the financial statements respectively.

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## Directors

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

### Executive Directors:

Mr. Wang Chun Lin (*Chairman*) (Appointed on 15th August, 2002,  
retired on 22nd August, 2002  
and re-appointed on 27th August, 2002)

Mr. Tai Chi Ching

Mr. Chen Cheng-hsiung (Resigned on 15th August, 2002)

Mr. Chiou, Jerry (Resigned on 30th January, 2003)

Mr. Chou Ping-chun, Benji (Resigned on 31st March, 2003)

### Non-executive Director:

Mr. Luk Cheong (Appointed on 29th October, 2002)

### Independent Non-executive Directors:

Mr. Lin, Jack

Mr. Chan, Gordon

In accordance with Articles 118 and 152 of the Company's Articles of Association, Mr. Wang Chun Lin, Mr. Tai Chi Ching and Mr. Luk Cheong will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Chiou, Jerry, Mr. Chen Cheng-hsiung and Mr. Chou Ping-chun, Benji have entered into service contracts with the Company for an initial term of three years which commenced on 3rd October, 2000 and continued until their resignation during the year.

Mr. Tai Chi Ching has entered into a service contract with the Company for an initial term of three years which commenced on 25th May, 2001 and continues thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

The term of office of each of the non-executive directors is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

Other than as disclosed above, none of the director 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.

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## Directors' interests in shares

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

Name of directors	Number of ordinary shares held Corporate interests
Mr. Wang Chun Lin ( <i>Note</i> )	70,568,000
Mr. Luk Cheong ( <i>Note</i> )	70,568,000

*Note:* Mr. Wang Chun Lin and Mr. Luk Cheong beneficially own 6,600,000 and 6,800,000 ordinary shares of US\$1 each in Shen Gang Limited ("Shen Gang"), representing 33% and 34% of the issue share capital of that company, respectively. Shen Gang in turn owns 70,568,000 ordinary shares in the Company.

Other than as disclosed above, none of the directors or chief executives, nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## Arrangements to purchase shares or debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement 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.

## Substantial shareholders

Other than the interest disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31st March, 2003.

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## Directors' interest in contracts of significance and connected party transactions

- (a) Pursuant to an agreement dated 27th November, 2000 (the "Agreement"), the Company has appointed AVANTA Investment (International) Limited ("AVANTA Investment") as its investment manager with effect from 28th April, 2000. The directors of the Company, Mr. Jerry Chiou who resigned during the year and Mr. Tai Chi Ching, are also directors of AVANTA Investment. Pursuant to the Agreement, AVANTA Investment will be entitled to a monthly management fee calculated at 1.5% per annum of the net asset value of the Group at each preceding month end as defined in the Agreement and an annual performance fee equivalent to 10% of the surplus in net asset value (with appropriate adjustment) of the Group over that of the previous financial year as defined in the Agreement. During the year, the Company paid a management fee of approximately HK\$753,000 to AVANTA Investment. In the opinion of the independent non-executive directors, the payment of management fees was:
- (i) in the ordinary and usual course of the Company's business and was in accordance with the terms of the relevant agreement;
  - (ii) on normal commercial terms and on an arm's length basis; and
  - (iii) fair and reasonable so far as the shareholders of the Company are concerned.
- (b) On 25th July, 2002, the Company entered into a sale and purchase agreement (the "Agreement") with Taiwan International Capital (HK) Limited ("TIC"), a former substantial shareholder of the Company. Mr. Jerry Chiou (former director of the Company) and Mr. Tai Chi Ching (director of the Company) are also directors of TIC. Pursuant to the Agreement, the Company agreed to sell shares in three listed companies including 7,470,000 shares in CEC International Holdings Limited, 18,620,000 shares in Fast Systems Technology (Holdings) Limited, 74,900,000 shares in Grandmass Enterprise Solution Limited and the entire issued shares in an unlisted private company incorporated in the British Virgin Islands (the "Investments") to TIC. The consideration was to be: (i) for shares in the listed companies, an amount equal to the average closing price of the relevant shares as stated in The Stock Exchange of Hong Kong Limited's (the "Stock Exchange") daily quotations sheet for the 20 business days prior to 1st August, 2002 and (ii) HK\$6,000,000 for the shares of the unlisted private company.

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## Directors' interest in contracts of significance and connected party transactions *(continued)*

The Company had been holding the Investments (except for the shares of an unlisted private company) for one year and the directors had been seeking opportunities to divest the Investments primarily for the purpose of increasing the Company's liquidity and enabling the Company to engage in new investment projects when opportunities arose.

The Agreement was reached between TIC and the Company after arm's length negotiation. The directors considered that the terms of the Agreement were on normal commercial terms which were fair and reasonable so far as the independent shareholders of the Company were concerned. The aforesaid transaction was duly approved by independent shareholders at the Extraordinary General Meeting held on 26th September, 2002.

However, TIC served a notice of termination to the Company and exercised its right of termination under the Agreement, pursuant to which the Agreement was terminated with effect from 5th November, 2002.

Other than as disclosed above, no 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.

## Purchase, sale or redemption of the company's listed shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

## Corporate governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, during the year ended 31st March, 2003 in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, except that the non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

## 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

**Wang Chun Lin**

*Chairman*

Hong Kong, 25th July, 2003