

# REPORT OF THE DIRECTORS

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

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS

The Group's loss for the year ended 31 March 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 58.

## SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and of the assets, liabilities and minority interests of the Group for the five financial years ended 31 March 2003.

	Year ended 31 March				
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
<b>RESULTS</b>					
TURNOVER	<b>31,136</b>	19,117	14,095	29,353	195,618
PROFIT/(LOSS) BEFORE TAX	<b>(8,805)</b>	(10,874)	33,760	(110,485)	(106,565)
Tax	–	–	–	(89)	255
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<b>(8,805)</b>	(10,874)	33,760	(110,574)	(106,310)
Minority interests	<b>45</b>	14	5	–	–
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<b>(8,760)</b>	(10,860)	33,765	(110,574)	(106,310)

# REPORT OF THE DIRECTORS

## SUMMARY FINANCIAL INFORMATION (Continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS	2003 HK\$'000	As at 31 March			
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TOTAL ASSETS	17,274	22,459	19,308	13,900	69,665
TOTAL LIABILITIES	(20,420)	(16,803)	(18,368)	(604,761)	(549,952)
MINORITY INTERESTS	(683)	(728)	(40)	–	–
NET ASSETS/(LIABILITIES)	<u>(3,829)</u>	<u>4,928</u>	<u>900</u>	<u>(590,861)</u>	<u>(480,287)</u>

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

## CONVERTIBLE NOTES

Particulars of the Company's and the Group's convertible notes at the balance sheet date are set out in note 22 to the financial statements.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in notes 24 and 25 to the financial statements.

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 its existing shareholders.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 26 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 March 2003, the Company did not have any reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 74% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 34%. Purchases from the Group's five largest suppliers accounted for approximately 47% of the total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 24%.

Apart from as disclosed under the heading "Connected Transactions" below, none of the directors of the Company, or any of their associates or any other shareholders, which to the best knowledge of the directors own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or suppliers.

## DIRECTORS

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

### **Executive directors:**

Wang Ke Duan *(Chairman)*  
Tjia Boen Sien *(Managing Director and Deputy Chairman)*  
Wang Jing Ning  
Keung Kwok Cheung  
Kong Kwok Fai  
Song Sio Chong

### **Independent non-executive directors:**

Siu Man Po  
Wong Sin Yee

In accordance with clause 102(B) of the Company's bye-laws, all of the existing directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## 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 of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Except as detailed in note 30 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 holding companies, fellow subsidiaries or subsidiaries was a party during the year.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

### Executive directors

**WANG Ke Duan**, aged 72 joined the Group in August 2000 and is the chairman of the Group. He has over 48 years' experience in the construction engineering industry in the PRC and Hong Kong. He is currently responsible for the daily operations of the Group.

**TJIA Boen Sien**, aged 59, joined the Group in August 2000. He is the managing director and deputy chairman of the Group. Mr. Tjia is responsible for the overall corporate strategy and the daily operations of the Group, including business development and overall management. He graduated from the Fujian Overseas Chinese University in the PRC. Mr. Tjia is well-respected and has established connections in the PRC construction industry through his extensive experience. He has over 20 years' experience in the construction industry in the PRC and Hong Kong. Mr. Tjia is the vice chairman and committee member of Zhan Tian You Civil Engineering Development for Science and Technology; a member of China Civil Engineering Society, PRC; a corporate member of the Chartered Institute of Building and a member within the Project Management Section, Architecture & Surveying Institute in the United Kingdom.

**WANG Jing Ning**, aged 47, joined the Group in August 2000 and is the executive director of the Group. Mr. Wang has over 23 years' experience in hotel management and construction engineering in the PRC and Hong Kong. He is currently responsible for managing the Group's projects in the PRC.

**KEUNG Kwok Cheung**, aged 45, joined the Group in September 2000. He is an executive director of the Group. He has over 21 years' experience in the field of civil and structural engineering and building project management. He also holds an Associateship in Civil and Structural Engineering from the Hong Kong Polytechnic University and a Master's degree in Business Administration from the University of East Asia in Macau. He is a member of Civil Engineering & Architectural Society of Guangdong Province, PRC and is a member of the China Civil Engineering Society, PRC.

**KONG Kwok Fai**, aged 41, joined the Group in September 2000. He is an executive director of the Group. He holds a Master's degree in civil and structural engineering from the University of Sheffield in the United Kingdom and is a member of the Association for Project Management in the United Kingdom; a member of the Civil Engineering Society of China, PRC and a member of the Civil Engineering & Architectural Society of Guangdong Province, PRC.

**SONG Sio Chong**, age 48, joined the Group in September 2000. He is an executive director of the Group. He has 23 years' professional experience in structural design, site supervision and contract management. He is a Chartered Structural Engineer and Registered Professional Engineer. Other than academic qualification in Civil and Structural Engineering, he holds LLB, LLM and LLD in PRC Law from Peking University.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

### Independent non-executive directors

**SIU Man-po**, aged 65, obtained his MSc in Civil Engineering in 1963 from Auburn University in Auburn, Alabama, USA.

Mr. Siu has extensive experience in construction field including construction of Tsing Yi Power Stations in 1966-1977, MTR stations in 1977-1987 and Hong Kong Baptist University campus development in 1989-1999.

Mr. Siu is a Fellow Member of the Hong Kong Institution of Engineers, American Society of Civil Engineers, the Hong Kong Institute of Facility Management and the Hong Kong Institute of Directors.

Mr. Siu is currently the Managing Director of Ho Wang Siu Mak Management Ltd.

**WONG Sin Yee**, aged 43, was graduated from the University of Hong Kong in 1982. She has extensive experience in property and construction matters in Hong Kong and the PRC. Miss Wong was admitted as a solicitor of the Supreme Court of Hong Kong in 1992 and has worked as an in-house lawyer and consultant since then. Miss Wong is now the principal of Messrs. S. Y. Wong & Co. specialising in commercial and corporate law.

### Senior Management

**LO Wing Ling**, age 43, joined the Group in 1984. He is the director of Kenworth Engineering Limited and incharge of the Engineering Division of the Group. He is responsible for the planning and coordination of projects which cover the co-ordination of engineering resources, progress monitoring and work performance. Mr. Lo has over 20 years' experience in environmental engineering and building services work. He holds a bachelor of science degree in mechanical engineering and a bachelor or arts degree in business studies. He is also a Director of The Hong Kong Project Management Exchange Centre.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

### Senior Management (Continued)

**WONG Chi Kwong**, aged 43, joined the Group in September 2000. He is a general manager of the Group and is responsible for managing the whole engineering business development of the organisation. He has over 20 years' experience in the building services engineering field. He holds a bachelor degree in Electrical & Electronic Engineering from the Brighton Polytechnic University in the United Kingdom. He is a Chartered Engineer and Registered Professional Engineer in both electrical and building services disciplines. He is a member of Institution of Electrical Engineers, a member of Chartered Institution of Building Services Engineers, a member of Hong Kong Institution of Engineers, a member of Association for Project Management and an associate member of Association of British Theatre Technicians. He is also an EMSD Registered Electrical Worker with grade C0.

**Ong Chi King**, aged 30, joined the Group in August 2000. He is the financial controller and company secretary of the Group. He is responsible for the overall supervision on the accounting, finance and company secretarial functions of the Group. He holds a bachelor's degree in business administration from the Hong Kong University of Science and Technology. He is an associate of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants.

**CHAN Kam Tong**, aged 34, joined the Group in April 2001. He is the assistant general manager of Kenworth Engineering Ltd. and is responsible for tendering, project administration and business development. He has over 10 years' experience in the building services field. He is procuring an Engineering Doctorate degree in electronic and information technology in the Hong Kong Polytechnic University. He holds a Master of Science degree in engineering from the University of Hong Kong and a Bachelor of Engineering degree in electrical & electronic engineering from the Newcastle Upon Tyne Polytechnic, U.K. He is a Chartered Engineer, registered electrical worker (Grade C0, H0) in EMSD, a member of the Institution of Electrical Engineers and the Hong Kong Institution of Engineers. He is also a vice chairman of Young Member Group of CIBSE, Hong Kong branch.

**KWOK Koon Keung**, aged 35, joined the Group in August 2000. He is a deputy contracts manager of the Group and is responsible for tender preparation and submission, preparation of payment application, measurement and cost estimates and settlement of final account. He has over 13 years' experience in the field. He holds a Bachelor of Science in Building from South Bank University. He is a Professional Associate Member of The Royal Institute of Chartered Surveyors.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

### Senior Management (Continued)

**WONG Ka Yan**, aged 30, joined the Group in April 2001. She is the assistant financial controller of the Group. She is responsible for assisting the financial controller in monitoring all of the Group's accounting and finance functions. She holds a bachelor's degree in commerce from the University of Adelaide. She is a certified public accountant of CPA Australia. Before joining the Group, she had several years' experience with an international accounting firm.

**LI Ngan Mei**, aged 42, joined the Group in August 2000 and is the administration manager of the Group. She has more than 18 years' experience in personnel and administration management.

## DIRECTORS' INTERESTS IN SHARES, CONVERTIBLE NOTES AND WARRANTS

As at 31 March 2003, the interests of the Company's directors and their respective associates in the issued share capital, convertible notes and warrants of the Company and its associated corporations 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:

### (a) The Company

Name of director	Nature of interest	Number of shares	Principal amount of convertible notes
Tjia Boen Sien	Corporate ( <i>Note</i> )	479,581,399	HK\$2,389,791
Wang Jing Ning	Corporate ( <i>Note</i> )	479,581,399	HK\$2,389,791

The directors have no interests in share options of the Company. Details of the Company's share option scheme are disclosed in note 25 to the financial statements.

*Note:* 479,581,399 shares, representing 55.62% of the issued share capital of the Company, and convertible notes with a principal amount of HK\$2,389,791, are held by Super Win Development Limited ("Super Win"), a wholly-owned subsidiary of Deson Development International Holdings Limited ("Deson"). Approximately 41.09% of the issued share capital of Deson is owned by Sparta Assets Limited ("Sparta Assets"), a company incorporated in the British Virgin Islands. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 80% and 10% of the issued share capital of Sparta Assets, respectively.

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## DIRECTORS' INTERESTS IN SHARES, CONVERTIBLE NOTES AND WARRANTS (Continued)

### (b) Associated corporations

Deson		Number of shares held	Number of warrants held
Name of director	Nature of interest		
Tjia Boen Sien	Corporate ( <i>Note</i> )	1,968,750,000	393,750,000
	Personal	215,230,000	24,894,000
Wang Jing Ning	Corporate ( <i>Note</i> )	1,968,750,000	393,750,000
	Personal	15,330,000	3,066,000
Wang Ke Duan	Personal	5,600,000	1,120,000
Keung Kwok Cheung	Personal	7,000,000	1,400,000
Kong Kwok Fai	Personal	5,000,000	1,000,000
Song Sio Chong	Personal	3,000,000	600,000
Siu Man Po	Personal	1,500,000	300,000

*Note:* Sparta Assets, a company incorporated in the British Virgin Islands, is beneficially interested in 1,968,750,000 shares of Deson. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 80% and 10% of the issued share capital of Sparta Assets, respectively.

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

## SHARE OPTION SCHEME

Due to the adoption of the Hong Kong Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, the detailed disclosures relating to the Company's share option scheme (the "Option Scheme") have been moved to note 25 to the financial statements.

At 31 March 2003, no share options were outstanding under the Option Scheme and none of the Company's directors or the Group's employees were granted share options during the year.



# REPORT OF THE DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Deson, the ultimate holding company of the Company, has granted options to acquire Deson's ordinary shares in favour of certain directors pursuant to Deson's share option scheme. During the year, no such share options were granted to directors, nor have any share options been exercised. The following share options were outstanding during the year:

Name of director	At 1 April 2002 and at 31 March 2003	Date of grant of share options	Exercise period of share options	Exercise price of share option HK\$	Price of Deson's shares	
					At grant date of options HK\$	At exercise date of options HK\$
Wang Ke Duan	2,000,000	23 Oct 00	23 Apr 01 to 22 Apr 03#	0.0384	0.055	–
	3,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	–
	<u>5,000,000</u>					
Tjia Boen Sien	26,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	–
	35,000,000	29 Aug 01	28 Feb 02 to 28 Feb 04	0.02864	0.037	–
	<u>61,000,000</u>					
Wang Jing Ning	3,000,000	23 Oct 00	23 Apr 01 to 22 Apr 03#	0.0384	0.055	–
	5,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	–
	<u>8,000,000</u>					
Keung Kwok Cheung	<u>5,000,000</u>	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	–
Kong Kwok Fai	5,000,000	23 Oct 00	23 Apr 01 to 22 Apr 03#	0.0384	0.055	–
	4,000,000	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	–
	<u>9,000,000</u>					
Song Sio Chong	<u>3,000,000</u>	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	–
	<u>91,000,000</u>					

# These share options were lapsed subsequent to year end.

# REPORT OF THE DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following persons were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

<b>Name of shareholder</b>	<b>Number of shares</b>	<b>Percentage of the Company's issued share capital</b>
Super Win	479,581,399 ( <i>Note</i> )	55.62
Deson Development Holdings Limited	479,581,399 ( <i>Note</i> )	55.62
Deson	479,581,399 ( <i>Note</i> )	55.62
Sparta Assets	479,581,399 ( <i>Note</i> )	55.62

*Note:* Super Win holds 479,581,399 shares in the Company. By virtue of Super Win being a wholly-owned subsidiary of Deson Development Holdings Limited ("DDHL"), and DDHL being a wholly-subsiary of Deson, and Sparta Assets being beneficially interested in 41.09% of the issued share capital of Deson, each of DDHL, Deson and Sparta Assets is deemed to be interested in the 479,581,399 shares held by Super Win.

Save as disclosed above, no person had registered as having an interest of 10% or more in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

## CONNECTED TRANSACTIONS

The Group had the following material connected transactions during the year:

	<b>2003</b>	<b>Group</b> 2002
	<b>HK\$'000</b>	<b>HK\$'000</b>
Construction contracting revenue	<b><u>7,808</u></b>	<b><u>3,502</u></b>

During the current year, electrical and mechanical engineering construction contracts with total contract sums of HK\$2,655,067 and HK\$7,048,162 were entered into under the terms and conditions set out in the construction contracts (the “Subcontracting Transaction”) between Deson Development Limited and Deson Engineering Limited, wholly-owned subsidiaries of Deson, and the Group. The directors believe that these connected transactions enable the Group, Deson and its subsidiaries to achieve synergy through vertical integration and are for the mutual benefit of the two groups.

At the time of the Subcontracting Transaction, the Company was 55.62% owned by Deson. As such, the Subcontracting Transaction constituted a connected transaction under Rule 14.23 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Listing Rules for the three financial years ending 31 March 2004. The connected transactions have been approved by the Company’s board of directors.

The independent non-executive directors of the Company have reviewed and confirmed that the aggregate revenue for the year ended 31 March 2003 did not exceed HK\$200 million for the connected transactions described above, and that such transactions were:

- (i) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;
- (ii) conducted on terms no less favourable than those made available by the Group to independent third parties; and
- (iii) fair and reasonable as far as the shareholders of the Company are concerned.

The auditors of the Company (as required by the Stock Exchange in its letter dated 2 January 2002), have also reviewed the connected transactions and have confirmed the compliance of these transactions with the conditions required to be confirmed by the auditors to the Stock Exchange under the conditional waiver.

# REPORT OF THE DIRECTORS

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by this annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company’s bye-laws.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

## 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

**Tjia Boen Sien**

*Managing Director and Deputy Chairman*

Hong Kong

24 July 2003