

# Directors' Report

The Directors present their annual report and the audited financial statement of the Company and its subsidiaries (the "Group") for the financial year ended 31 March 2003.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are hotel operations, trading of electronic products related materials, property investments and strategic investments in the PRC.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by business segments and geographical segments for the year ended 31 March 2003 is set out in note 15 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest customers accounted for less than 30% of the Group's total sales.

During the year, the Group's five largest suppliers accounted for 65.36% of the Group's total purchases. The largest supplier accounted for 37.4% of the Group's total purchases.

None of the directors, their associates or any shareholder of the Company, which to the knowledge of the directors owns more than 5% of the Company's issued share capital, had beneficial interest in any the Group's five largest suppliers or customers.

## RESULTS AND DIVIDEND

The results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 17.

The Directors do not recommend the payment of a dividend and no dividend was paid during the year under review (2002: Nil).

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

## POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 35 to the financial statements.

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## FINANCIAL SUMMARY

A financial summary of the Group is set out on page 51.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired approximately HK\$285.1 million of hotel properties, other property, plant and equipment and disposed of approximately HK\$60.1 million investment properties. The Group has carried out a revaluation on its investment and hotel properties. The revaluation deficits of HK\$4.9 million in respect of investment properties and HK\$4.9 million in respect of hotel properties have been transferred to the investment properties revaluation reserve and charged to the Consolidated Income Statement respectively. Details of these and other movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2003 are set out in note 18 to the financial statements.

## MANAGEMENT CONTRACT

During the year, Harbour Plaza Kunming Co., Ltd. (the "Hotel Company"), a wholly-owned subsidiary of the Company, has entered into a management contract with Harbour Plaza Hotel Management Limited ("HPHM"), a member of the Hutchison Whampoa group, whereby HPHM was engaged by the Hotel Company as the exclusive and sole manager and operator (and as sole agent of the Hotel Company) of the Harbour Plaza Kunming (the "Hotel") to operate and manage the Hotel for and on behalf of the Hotel Company for an initial operation period of 2 years starting from 8 November 2002, being the completion date for the acquisition of the Hotel Company by the Group. None of the Directors have interests, whether directly or indirectly, in the aforesaid management contract.

## BORROWINGS

At 31 March 2003, the Group did not have any outstanding bank loan.

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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. LIU Xue Lin	
Mr. LEE Tiong Hock	
Mr. LAW Yip Wai, Benjamin	(appointed on 4 March 2003)
Mr. CHEN Ying Feng	(appointed on 4 March 2003)
Mr. LIM Ka Thiam	(resigned on 4 March 2003)
Ms. SHI Ning	(resigned on 10 September 2002)
Mr. Ricky CHIM Kim Lun	(resigned on 8 April 2002)
Mr. KWOK Lin	(resigned on 8 April 2002)

### Independent Non-executive directors

Mr. LIU Kwok Fai, Alvan	
Mr. CHOW Siu Tong	
Mr. LIN Gongshi	(resigned on 13 June 2002)
Mr. Jordan Z. DENG	(resigned on 8 April 2002)

In accordance with Section 99(A) of the Company's Bye-laws, Messrs. LAW Yip Wai, Benjamin and CHOW Siu Tong retire and, being eligible, offer themselves for re-election.

The non-executive directors are subject to retirement by rotation as required by the Company's Bye-Laws.

## DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

# Directors' Report

## DIRECTORS' INTEREST IN SHARES

As at 31 March 2003, the interests of the directors 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 ("SDI Ordinance") were as follows:

	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
LIU Xue Lin	–	–	250,036,000*	–

\* *These shares are held through Open Mission Assets Limited which is beneficially owned by Mr. Liu.*

Save as disclosed above, as at 31 March 2003, no interests were held or deemed or taken to be held under the SDI Ordinance by any Directors or their respective associates in any shares of the Company or its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company and its associated corporation, or had exercised any such right.

## DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Company has managed to repay approximately HK\$33.2 million to Open Mission Assets Limited ("Open Mission"). To show its continuous financial support to the Group, Open Mission has agreed to waive interest (approximately HK\$3.28 million) against the Company for the year ended 31 March 2003 (2002: HK\$3,522,257).

Other than disclosed above, no contracts of significance in relation to the Group's business 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 year end or any time during the year.

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## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

On 8 November 2002, the Company issued a 2% Convertible Note (the "CN") amounting to HK\$155 million in favour of Hutchison International Limited ("HIL") being partial consideration for the Company's acquisition of 100% equity interest in Risdon Limited, the holding company of the Hotel Company. Pursuant to the CN, HIL has the right at any time before 7 November 2004 to convert in whole or in part the CN into new Shares at an initial conversion price of HK\$0.76 (subject to adjustment) per share. If the conversion rights attached to the CN are fully exercised at such price, 203,947,368 new Shares (the "Conversion Shares"), representing 19.2% of the existing issued share capital of the Company and about 16.11% of the then issued share capital of the Company as enlarged by the issue of the Conversion Shares, will fall to be issued to HIL.

Save as disclosed above, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 March 2003 and there had been no exercise of convertible securities, options, warrants or similar rights during the year.

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

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

## SUBSTANTIAL SHAREHOLDER

At 31 March 2003, save for the interests of the Directors disclosed above, according to the register maintained by the Company under the Section 16(1) of the SDI Ordinance and so far as is known to any Director, the following party was directly interested in 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary Shares held	Approximate Shareholding
Open Mission Assets Limited	250,036,000	23.55%

Save as disclosed above, the Directors are not aware of any party who is directly or indirectly interested in 10% or more of the issued share capital of the Company as at 31 March 2003 as recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors is interested in any business which compete or are likely to compete, either directly or indirectly, with the businesses of the Company during the year ended 31 March 2003 and up to the date of this report.

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## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-Laws although there are no restrictions against such rights under the laws in Bermuda.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied during the year ended 31 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 except that the independent non-executive directors of the Company have not been appointed for a specific term of office but retire from office on a rotational basis in accordance with the Company's Bye-Laws.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established to provide independent review of the financial statements. The current Committee members are Mr. Alvan Liu Kwok Fai and Mr. Chow Siu Tong, independent non-executive directors of the Company.

## **AUDITORS**

In the preceding three years, Charles Chan, Ip & Fung CPA Ltd. has been the auditors of the Company. A resolution will be submitted to the annual general meeting of the Company to re-appoint Charles Chan, Ip & Fung CPA Ltd. as auditors of the Company.

On behalf of the Board

**LIU Xue Lin**

*Chairman*

Hong Kong, 15 August 2003