

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2003.

1. CHANGE OF COMPANY'S NAME

Pursuant to a special resolution passed at the Annual General Meeting held on 27 May 2003 and with the approval of the Registrar of Companies in Bermuda, the Company's name was changed from "Prosper eVision Limited" to "China Nan Feng Group Limited") "中國南峰集團有限公司" was adopted as the Company's Chinese name for identification purpose.

2. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

The principal activity of the Company is investment holding. The activities of the 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.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

3. FINANCIAL POSITION AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 21.

The state of the Group's affairs at 31 December 2003 is set out in the consolidated balance sheet on pages 22 and 23.

The changes in equity of the Group for the year are set out in the consolidated statement of changes in equity on page 25.

The cash flows of the Group for the year are set out in the consolidated cash flow statement on pages 26 and 27.

The directors do not recommend the payment of any dividend.

4. RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the financial statements.

At 31 December 2003, the Company's share premium account may be distributed in the form of fully paid bonus shares.

5. PROPERTY, PLANT AND EQUIPMENT

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

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6. INTANGIBLE ASSETS

Details of the movements in intangible assets of the Group are set out in note 13 to the financial statements.

7. SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 22 to the financial statements.

In May 2003, the Group has entered into settlement agreements ("Debt Equity Swap") with 16 creditors whereby these creditors agreed to accept 108,774,440 new shares of the Company at HK\$0.10 each as full and final settlements of the aggregate liabilities due to these creditors amounting to HK\$10,877,000. The market price of the Company's share on the date when the terms of issue were fixed was HK\$0.05 per share.

8. PRE-EMPTIVE RIGHTS

There is no provision 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.

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9. FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below:

Results	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	As restated 2000 HK\$'000	1999 HK\$'000
Turnover	<u>14,062</u>	<u>24,645</u>	<u>46,870</u>	<u>83,926</u>	<u>85,364</u>
Operating loss after finance costs	(126,382)	(234,736)	(103,363)	(101,980)	(141,210)
Share of profits/(losses) of associated companies	2	(486)	(11,685)	(6,950)	(57)
Share of result of a joint venture	-	-	(310)	(59)	-
Amortisation of premium on acquisition of associated companies	(7,764)	(5,823)	-	-	-
Impairment loss on investments in associated companies	(11,862)	-	-	-	-
Impairment loss on investments held for resale	(115,739)	(30,816)	-	-	-
(Loss)/gain on disposal of subsidiaries	<u>-</u>	<u>(1,905)</u>	<u>(84,147)</u>	<u>26,954</u>	<u>-</u>
Loss before taxation	(261,745)	(273,766)	(199,505)	(82,035)	(141,267)
Taxation	<u>(596)</u>	<u>-</u>	<u>(82)</u>	<u>(225)</u>	<u>1,259</u>
Loss from operating activities	(262,341)	(273,766)	(199,587)	(82,260)	(140,008)
Minority interest	<u>-</u>	<u>60,762</u>	<u>(1)</u>	<u>-</u>	<u>1,419</u>
Loss attributable to shareholders	<u>(262,341)</u>	<u>(213,004)</u>	<u>(199,588)</u>	<u>(82,260)</u>	<u>(138,589)</u>

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9. FIVE YEARS FINANCIAL SUMMARY (Continued)

Assets and Liabilities	As at 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	As restated 2000 HK\$'000	1999 HK\$'000
Total assets	8,336	255,217	550,767	435,708	511,458
Total liabilities	(185,897)	(105,918)	(184,732)	(95,233)	(284,880)
	(177,561)	149,299	366,035	340,475	226,578
Minority interest	–	(74,827)	(135,589)	–	(2,507)
(Capital deficiency)/ Shareholders' funds	(177,561)	74,472	230,446	340,475	224,071

10. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

11. DIRECTORS

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

Executive directors:

Mr. TAM Jin Rong	(re-designated on 11 February 2003)
Mr. TAM Kai On	(appointed on 6 August 2003)
Mr. TAO Ke Wei	(appointed on 28 April 2003)
Mr. KO Chung Ting, Peter	
Mr. YU Won Kong, Dennis	(retired on 27 May 2003)

Non-executive directors:

Mr. TAM Jin Rong	(re-designated as an executive director on 11 February 2003)
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Independent non-executive directors:

Mr. LAU Kwok Wah	(appointed on 6 August 2003)
Mr. CHOY Sai Man	
Mr. YUE Wai Keung	(retired on 27 May 2003)
Ms. LEE Sau Ying, Ellie	(resigned on 21 August 2003)
Mr. TANG Cheung Fai	(resigned on 28 April 2003)

In accordance with Clause 99 of the Company's Bye-Laws, Mr. KO Chung Ting, Peter retire by rotation and, being eligible, offer himself for re-election at the forthcoming Annual General Meeting.

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In accordance with Clause 102(B) of the Company's Bye-Laws, Messrs. TAM Kai On and LAU Kwok Wah, being appointed by the Board during the year and eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

12. DIRECTORS' SERVICE CONTRACTS

Mr. Tam Jin Rong, Mr. Tam Kai On, Mr. Tao Ke Wei and Mr. Ko Chung Ting, Peter entered into service contracts with the Company for a period of three years commencing from 11 February 2003, 1 June 2003, 1 June 2003 and 1 June 2003, respectively (the "Service Contracts"). The Services Contracts provided for a compensation payment from the Company for early termination by the Company during the term of Service Contracts.

Save as disclosed above, no directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

13. DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 30 to the financial statements, no contracts of significance in relation to the Company's business to which the Company, its subsidiaries or its fellow 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.

14. BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on page 9.

15. RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's costs charged to the consolidated income statement for the year are set out in note 11 to the financial statements.

16. CONNECTED TRANSACTIONS

During the year, the Company has interest of HK\$275,000 payable to Euro Concord Assets Limited ("Euro Concord") in which Mr. Tam Jin Rong ("Mr. Tam"), an executive director of the Company, is the sole director and sole shareholder. During the year, the Group generated HK\$1,667,000 (2002: HK\$Nil) construction revenue in relation to two construction contracts, with each construction contract having a contract sum of below HK\$1 million, were carried out in the ordinary course of business and were entered into on normal commercial terms with a company of which, an executive director is a beneficial shareholder. Details of these transactions are set out in note 30 to the financial statements.

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17. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 December 2003, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO") which had been notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity/ Nature of Interests	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Tam Jin Rong	Corporate (Note)	10,750,000	–	10.49%

Note: These Shares were held through Euro Concord.

Save as disclosed herein, as at 31 December 2003, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures or other securities of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required in the Listing Rules pursuant to Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

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18. DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

- (i) Particulars of the Company's share option scheme adopted on 11 June 1997 are set out in note 22 to the financial statements.
- (ii) At no time during the year was the Company, its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

19. SUBSTANTIAL SHAREHOLDERS

As at the 31 December 2003, so far as is known to, or could be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, deemed to be interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital were as follow:

Name of Shareholders	Capacity/ Nature of Interests	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Best Fortune Capital Ltd. ("Best Fortune") (Note 1)	Corporate	12,688,479	–	12.38%
China Convergent Corporation Ltd ("China Convergent") (Note 2)	Corporate	12,058,479	–	11.77%
Gold Chief Investment Ltd ("Gold Chief") (Note 2)	Beneficial	12,058,479	–	11.77%
Euro Concord	Beneficial	10,750,000	–	10.49%

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Note 1: Best Fortune holding 49.96% interest is the controlling shareholder of China Convergent. The interest of Best Fortune in the Company are held through China Convergent and Gold Chief. In addition, Best Fortune also holds in its own name 0.61% interest of the Company.

Note 2: By virtue of the SFO, China Convergent holding a 100% interest in Gold Chief is deemed to be interested in the 12,058,479 Shares held by Gold Chief.

20. MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

21. MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

– the largest customer	59%
– five largest customers combined	96%

Purchase

– the largest supplier	41%
– five largest suppliers combined	73%

During the year, the Group generated HK\$1,667,000 (2002: HK\$Nil) construction revenue in relation to two construction contracts, with each construction contract having a contract sum of below HK\$1 million, were carried out in the ordinary course of business and were entered into on normal commercial terms with a company of which, an executive director is a beneficial shareholder, was one of the five largest customers noted above.

Except for the above, 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) had an interest in the major customers or suppliers noted above.

22. COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules save that non-executive directors have not been appointed for a specific term but are subject to retirement by rotation at the Annual General Meeting of the Company in accordance with the Bye-laws of the Company.

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23. AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control. The audit committee comprises two independent non-executive directors of the Company.

24. POST BALANCE SHEET EVENTS

- (i) On 27 April 2004, the Capital Reorganisation and the Creditors' Scheme became effective and the Open Offer became unconditional and that all conditions precedent to such restructuring proposal, details of which are set out in note 2 to the financial statements, have been fulfilled and the restructuring was completed on the same date.
- (ii) After the Capital Reorganisation and the Creditors' Scheme became effective and the Open Offer became unconditional on 27 April 2004, Mr. Tam Jin Rong, who has a 10.49% beneficial interest in the Company increased his beneficial interests to 51.7%.
- (iii) On 6 April 2004, the winding up petition which was served on behalf of Mr. Alfred Siu, an ex-chairman of the Company, was dismissed.

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

25. AUDITORS

On 15 April 2002, Arthur Andersen & Co. tendered their resignation as the auditors of the Company. On the same day, RSM Nelson Wheeler were appointed as auditors of the company by the Board to fill in the casual vacancy. A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming Annual General Meeting.

On behalf of the board

Tam Kai On
Executive Director

Hong Kong, 29 April 2004