



The directors present their annual report and the audited financial statements of the Company for the year ended 31st March, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its subsidiaries are set out in note 31 to the financial statements.

RESULTS

The results of the Group for the year ended 31st March, 2004 are set out in the consolidated income statement on page 18.

No dividend was paid during the year.

SHARE CAPITAL

During the year, the Company went through a capital reorganisation which include capital reduction and share consolidation.

Details of these and other movements during the year in the share capital of the Company are set out in note 20 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31st March, 2004 as set out in note 11 to the financial statements. The deficit arising on revaluation amounting to HK\$8,800,000 has been charged to the consolidated income statement.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 12 to the financial statements.

PRINCIPAL PROPERTIES

Particulars of the Group's principal properties at 31st March, 2004 are set out on page 66.



DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Tse Cho Tseung (<i>Chairman</i>)	
Ms. Cheung Sze Man	(appointed on 20th May, 2004)
Ms. Lin Fung Yi (<i>Deputy Chairman</i>)	(resigned on 22nd August, 2003)
Ms. Keung Mei Wah, Jennifer (<i>Managing Director</i>)	(appointed on 29th December, 2003 and resigned on 20th May, 2004)
Mr. Tam Cheuk Ho (<i>Deputy Chairman</i>)	(resigned on 28th April, 2003)
Mr. Ding Chung Keung, Vincent (<i>Managing Director</i>)	(resigned on 29th December, 2003)

Independent non-executive directors:

Mr. Kwok Ka Lap, Alva (<i>Deputy Chairman</i>)	
Mr. Wong Chi Keung, Alvin	(appointed on 20th May, 2003)
Mr. Ho Kin Cheong, Kelvin	(resigned on 20th May, 2003)

In accordance with Clause 86(2) of the Company's Bye-laws, Ms. Cheung Sze Man who was appointed during the period from the last annual general meeting to the date of this report will retire at the forthcoming annual general meeting and, being eligible, will offer herself for re-election.

None of the directors being 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.

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31st March, 2004, the interests of the directors and the chief executives and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of the Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long Position

Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Tse Cho Tseung	Held by controlled corporation	28,558,196 <i>(Note)</i>	22.36%

Note: These shares were beneficially owned by Lunghin Enterprise Inc. ("Lunghin"), a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung.

Save as disclosed above, none of the directors nor the chief executives nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31st March, 2004.


 Directors' Report

SHARE OPTIONS

There are two share option schemes adopted by the Company on 28th February, 1994 (the "1994 Scheme") and on 26th August, 2002 (the "2002 Scheme"). Pursuant to a resolution passed on 26th August, 2002, the 1994 Scheme was terminated.

Particulars of the Company's share option schemes are set out in note 21 to the financial statements.

The following table discloses movements in the Company's share options during the year:

	Date of grant	Exercise price** HK\$	Number of share options of the Company					Outstanding at 31.3.2004
			Outstanding at 1.4.2003	Adjustment during the year**	Granted during the year	Exercised during the year	Cancelled during the year	
Category 1: Director								
1994 Scheme								
Mr. Ding Chung	30.4.1997	15.84	960,000	(912,000)	-	-	(48,000)	-
Keung, Vincent *	2.5.1997	16.50	480,000	(456,000)	-	-	(24,000)	-
	25.11.1998	2.10	440,000	(418,000)	-	-	(22,000)	-
	20.12.1999	2.56	1,500,000	(1,425,000)	-	-	(75,000)	-
	14.3.2000	6.60	1,200,000	(1,140,000)	-	-	(60,000)	-
Total director			<u>4,580,000</u>	<u>(4,351,000)</u>	-	-	<u>(229,000)</u>	-
Category 2: Employees								
1994 Scheme								
Other employees	30.4.1997	15.84	120,000	(114,000)	-	-	(6,000)	-
Other employees	19.6.1997	21.84	168,000	(159,600)	-	-	(3,600)	4,800
Other employees	2.2.1998	2.00	111,000	(105,450)	-	-	(3,550)	2,000
Other employees	17.11.1999	2.34	210,000	(199,500)	-	-	-	10,500
Other employees	14.3.2000	6.60	6,700,000	(6,365,000)	-	-	(325,000)	10,000
			<u>7,309,000</u>	<u>(6,943,550)</u>	-	-	<u>(338,150)</u>	<u>27,300</u>
2002 Scheme								
Other employees	7.1.2004	0.207	-	-	9,325,000	(8,170,000)	-	1,155,000
Total employees			<u>7,309,000</u>	<u>(6,943,550)</u>	<u>9,325,000</u>	<u>(8,170,000)</u>	<u>(338,150)</u>	<u>1,182,300</u>
Category 3: Consultants								
2002 Scheme								
Consultants	7.1.2004	0.207	-	-	2,340,000	(2,340,000)	-	-
Total all categories			<u>11,889,000</u>	<u>(11,294,550)</u>	<u>11,665,000</u>	<u>(10,510,000)</u>	<u>(567,150)</u>	<u>1,182,300</u>

* The director resigned during the year

** With effect from 15th April, 2003, every 20 issued and unissued shares of HK\$0.0005 each in the capital of the Company was consolidated into one new ordinary share of HK\$0.01 each in the share capital of the Company following a capital reorganisation (the "Capital Reorganisation") as set out in note 20 to the financial statements. Accordingly, the exercise price and the number of share options were adjusted.

SHARE OPTIONS (Cont'd)

Details of closing prices of the Company's share immediately before the date of grant of the 2002 Scheme and the date of exercise of the options were as follows:

Number of share options granted/exercised	Closing price	Closing price
	before the date of grant	before the date of exercise
	2004	2004
	HK\$	HK\$
11,665,000	0.21	–
3,510,000	–	0.47
5,845,000	–	0.43
1,155,000	–	0.41

The directors are of the view that the value of the theoretical value of the options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors of the Company believed that any calculation of the value of the options will not be meaningful and may be misleading to shareholders in the circumstances.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save 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 debentures of, the Company or any other body corporate. In addition, none of the directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company or had exercised any such right during the year.



CONNECTED TRANSACTIONS

On 11th November, 2003, Cheung Tai Hong Holdings (Property) Limited (“CTH Property”), a wholly-owned subsidiary of the Company, entered into agreements with Mr. Wong Chun Hong (“Mr. Wong”), the sole beneficial shareholder of Asia Progress Investments Limited (“Asia Progress”) and Handsworth Investments Limited (“Handsworth”) and a director of Master Super Development Limited (“Master Super”), a 60% owned subsidiary of the Company, in respect of the acquisition of the entire issued share capital of and loans to Asia Progress (the “Asia Progress Agreement”) and Handsworth (the “Handsworth Agreement”) (the “Acquisitions”). The Asia Progress Agreement and the Handsworth Agreement were completed on 24th December, 2003 (the “Completion Date”).

Pursuant to the Asia Progress Agreement, CTH Property had acquired the entire issued share capital of Asia Progress from Mr. Wong at a consideration of HK\$1 and accepted the assignment of the shareholder’s loan owing by Asia Progress to Mr. Wong as at the Completion Date of HK\$27,803,000 at a consideration of HK\$1. In addition, Mr. Wong had granted, before the Completion Date, an unsecured loan to Master Super in a sum of HK\$14,000,000 and upon the Completion Date, assigned the said loan to CTH Property at a consideration of HK\$1. Pursuant to the Handsworth Agreement, CTH Property had acquired the entire issued share capital of Handsworth from Mr. Wong at a consideration of HK\$1 and accepted the assignment of the shareholder’s loan owing by Handsworth to Mr. Wong at the Completion Date of HK\$83,337,000 at a consideration of HK\$1. The sole investment of each of Asia Progress and Handsworth was the 10% and 30% shareholding interest in Master Super, respectively. After completion of the Asia Progress Agreement and Handsworth Agreement, Asia Progress, Handsworth and Master Super become wholly-owned subsidiaries of CTH Property. The Acquisitions were approved by shareholders at a special general meeting on 12th December, 2003.

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract 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.



SUBSTANTIAL SHAREHOLDERS

At 31st March, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors and chief executives, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long position

Name of shareholder	Capacity	Number of issued shares held	Percentage of issued share capital of the Company
Lunghin	Beneficial owner	28,558,196 <i>(Note 1)</i>	22.36%
Loyal Concept Limited ("Loyal Concept")	Security interest	22,425,000 <i>(Notes 2 and 4)</i>	17.56%
Hanny Magnetics Limited ("Hanny Magnetics")	Security interest	5,178,000 <i>(Notes 2 and 4)</i>	4.05%
Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics BVI")	Held by controlled corporations	27,603,000 <i>(Notes 3 and 4)</i>	21.61%
Hanny Holdings Limited	Held by controlled corporations	27,603,000 <i>(Notes 3 and 4)</i>	21.61%



SUBSTANTIAL SHAREHOLDERS (Cont'd)

Long position (Cont'd)

Notes:

1. Mr. Tse Cho Tseung is interested in the 28,558,196 shares in the Company held by Lunghin by virtue of his 100% beneficial interest in the issued share capital of Lunghin. Details of the interest are disclosed under the section headed "Directors' and Chief Executives' Interests in Shares and Underlying Shares" above.
2. Pursuant to a loan agreement and a share mortgage agreement, both dated 29th October, 2001, entered into between Lunghin as the borrower and Loyal Concept as the lender, Loyal Concept agreed to grant a loan facility to Lunghin subject to, inter alia, Lunghin agreed to pledge 448,500,000 shares of HK\$0.10 each in the capital of the Company, to secure the loan facility. Loyal Concept is a wholly-owned subsidiary of Hanny Magnetics BVI which in turn is a wholly-owned subsidiary of Hanny Holdings Limited. The number of shares was adjusted to 22,425,000 of HK\$0.01 each following the Capital Reorganisation.

Pursuant to another share mortgage agreement dated 24th April, 2002, entered into between Lunghin as the borrower and Hanny Magnetics as the lender, Hanny Magnetics agreed to grant a loan facility to Lunghin subject to, inter alia, Lunghin agreed to pledge 103,560,000 shares of HK\$0.10 each in the capital of the Company, to secure the loan facility. Hanny Magnetics is a wholly-owned subsidiary of Hanny Magnetics BVI. The number of shares was adjusted to 5,178,000 of HK\$0.01 each following the Capital Reorganisation.
3. Hanny Magnetics BVI and Hanny Holdings Limited were taken to have an interest in 27,603,000 shares of HK\$0.01 each since Loyal Concept and Hanny Magnetics are wholly-owned subsidiaries of Hanny Magnetics BVI which in turn is a wholly-owned subsidiary of Hanny Holdings Limited, its shares are listed on the Stock Exchange.
4. Save as disclosed herein, Loyal Concept, Hanny Magnetics, Hanny Magnetics BVI and Hanny Holdings Limited are not connected with the Company, its directors, chief executive, substantial shareholders or any of its subsidiaries or their respective associates.

Other than as disclosed above, the Company has not been notified of any other relevant interest or short positions in the issued share capital of the Company as at 31st March, 2004.



MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 49% of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 25% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 90% of the Group's total purchases and the purchase attributable to the Group's largest supplier was approximately 79% of the Group's total purchases.

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) has any interest in any of the Group's five largest customers or suppliers.

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 Company's listed securities 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 the existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2004 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

Details of the significant post balance sheet events are set out in note 30 to the financial statements.



AUDITORS

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

On behalf of the Board

TSE CHO TSEUNG

Chairman

Hong Kong, 23rd July, 2004