



DIRECTORS' REPORT

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 principal subsidiaries and associates are set out in note 16 and note 17 to the financial statements respectively.

Change in substantial shareholder

During the year, Air Zone Group Limited, the former substantial shareholder of the Company, disposed of its approximately 29.36% interest in the Company to Earnest Equity Limited and accordingly, there was a change in the substantial shareholder of the Company. Details of the substantial shareholders as at 31st March, 2004 are disclosed under the heading "Substantial Shareholders".

Major customers and suppliers

The aggregate sales during the year attributable to the Group's five largest customers were less than 30% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

Results

Details of the Group's results for the year are set out in the consolidated income statement on page 18.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

Share capital

Details of movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

Purchase, sale or redemption of listed shares

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

Investment properties

During the year, the Group acquired certain investment properties for a consideration of approximately HK\$207,453,000.

During the year, the Group disposed of investment properties with carrying value of approximately HK\$3,900,000.

The Group revalued all of its investment properties at the balance sheet date and the surplus arising on revaluation of approximately HK\$218,697,000, of which HK\$4,194,000 has been credited to the consolidated income statement to the extent of the deficit previously charged and the remaining balance of HK\$214,503,000 is credited to the investment property revaluation reserve.

Details of these and other movements of investment properties of the Group during the year are set out in note 13 to the financial statements.

Property, plant and equipment

During the year, the Group incurred expenditure of approximately HK\$301,000 on property, plant and equipment.

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

Subsidiaries and associates

In July 2003, the Group acquired a further of approximately 0.14% interest in Capital Prosper Limited ("Capital Prosper"), a company listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"), for a cash consideration of approximately HK\$84,000. The interest in Capital Prosper held by the Group was increased from 28.08% to 28.22% upon the completion of the acquisition.

In November 2003, the Group disposed of its wholly owned subsidiary, namely Charm Management Limited ("Charm Management") for a consideration of approximately HK\$61,000,000 to a third party. The major assets of Charm Management is 28.22% interest in Capital Prosper.

DIRECTORS' REPORT

Subsidiaries and associates *(continued)*

In January, 2004, the Group also disposed of its entire 80% interest in Consecutive Profits Limited ("CPL") and its subsidiaries to a wholly-owned subsidiary of Capital Estate Limited ("Capital Estate"), a company listed on Hong Kong Stock Exchange for a consideration of HK\$6,000,000. The major asset of CPL is 82.5% interest in Century 21 Hong Kong Limited, a company engaged in the provision of estate agency services. Mr. Ng Kai Man, Luke, an executive director and the Deputy Chairman of Capital Estate, is also a substantial shareholder of CPL. The transaction constituted a connected transaction of Capital Estate under the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange.

In July 2003, the Group increased its interest in Capital Estate from 20.61% to 28.48%, for an aggregate cash consideration of approximately HK\$4,500,000. As at 31st March, 2004, the Group's interest in Capital Estate was then diluted from 28.48% to 21.71% following the allotment and issue of new shares by Capital Estate.

Contingent liabilities

	2004 HK\$'000	2003 HK\$'000
Corporate guarantee given by the Group for banking facilities granted to an associate	101,000	—

As at 31st March, 2004, the banking facilities utilised by the associate were approximately HK\$77,000,000.

Pledge of assets

At the balance sheet date, the following assets were pledged to secure general banking facilities granted to the Group:

- (a) Investment properties with a carrying value of HK\$482,650,000 (2003:HK\$56,500,000).
- (b) Bank deposits of HK\$5,219,000 (2003: HK\$5,178,000).

Borrowings

Details of bank loans and other borrowings of the Group are set out in note 26 to the financial statements. No interest was capitalised by the Group during the year.

Directors

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

Executive directors:

Mr. Choo Yeow Ming, *Executive Chairman*
Ms. Ma Wai Man, Catherine

Non-executive director:

Mr. Cheng Yuk Wo

Independent non-executive directors:

Mr. Lam Lee G.
Mr. Liu Yeau-Hwan, Pete
Mr. Wong Sin Just

In accordance with Article 99(A) and 182 of the Company's Bye-laws, Mr. Cheng Yuk Wo and Ms. Ma Wai Man, Catherine retire at the forthcoming annual general meeting by rotation. All retiring directors, being eligible, offer themselves for re-election.

The directors proposed for re-election at the forthcoming annual general meeting do not have any service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

DIRECTORS' REPORT

Brief details in respect of directors and senior management staff

Directors

Mr. Choo Yeow Ming, aged 50, Executive Chairman, joined the Group in 2000. A graduate of Harvard University Law School and University of Malaya Faculty of Law, Mr. Choo specialises in capital markets, securities as well as merger and acquisitions. Mr. Choo has also been involved in China related transactions since 1980 and advises many Chinese governmental entities. Mr. Choo is currently the Executive Chairman of Capital Estate.

Ms. Ma Wai Man, Catherine, aged 38, Executive Director and Company Secretary of the Company, joined the Group in 2001. Ms. Ma, a graduate of the City University of Hong Kong, is a chartered secretary and a member of both Association of Chartered Certified Accountants and Hong Kong Society of Accountants. Ms. Ma has extensive management experience in companies with diversified interests ranging from manufacturing, telecommunications to infrastructure and property investments. She has also held executive directorship in a number of companies listed on local and overseas stock exchanges before joining the Company. Ms. Ma is an executive director and the secretary of Capital Estate.

Mr. Cheng Yuk Wo, aged 43, Non-Executive Director, joined the Group in 2002. Mr. Cheng is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Society of Accountants, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Cheng worked at Coopers and Lybrand in London and with Swiss Bank Corporation in Toronto. He has held senior management positions in a number of Hong Kong listed companies and is a co-founder of a Hong Kong merchant banking firm. He is consultant of several listed companies and the proprietor of a certified public accountant practice in Hong Kong. Mr. Cheng holds a M.Sc.(Econ) degree and a B.A.(Hon) degree.

Dr. Lam Lee G., aged 45, joined the Company as an Independent Non-executive Director in 2001. He holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa, Canada, a Post-graduate Diploma in Public Administration from Carlton University, Canada, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 22 years of multinational business management, strategy consulting, corporate governance, investment banking, and direct investment experience. He is President & CEO, and Vice Chairman of the Board of Chia Tai Enterprises International Limited, Senior Executive Vice President of Chia Tai Group, a Member of the Board of TRUE Corporation PLC, and Vice Chairman of Shanghai Kinghill Ltd. A Fellow of the Hong Kong Institute of Directors, Dr. Lam has, over the past decade and across 13 countries/territories, served on the board of a number of publicly-listed and privately-held companies. Dr. Lam is also an Independent Non-executive Director of Capital Prosper.

Brief details in respect of directors and senior management staff *(continued)*

Directors *(continued)*

Mr. Liu Yeau-Hwan, Pete, aged 56, Independent Non-executive Director of the Company, joined the Group in 2001. Mr. Liu is the founder and Chairman of WI Harper Group, a venture capital and investment-banking firm, with offices in San Francisco, Taipei, Hong Kong, and Beijing. Since 1989, Mr. Liu is also a general partner of International Network Capital Fund, a leading venture capital fund management firm providing high technology investment opportunities to its investors in the Asia Pacific Region and the United States. Previously, Mr. Liu was a founder and principal partner at Walden International Investment Group. Mr. Liu has counselled over 200 major high-tech companies throughout the U.S. and Asia.

Mr. Wong Sin Just, aged 38, Independent Non-executive Director, joined the Group in 2001. Mr. Wong possesses over 10 years of investment banking experience having held positions with a number of premier international investment banks. Mr. Wong is currently the executive co-chairman of E2-Capital (Holdings) Limited. Prior to establishing E2-Capital Limited, Mr. Wong was the Managing Director and the Head of Equity Capital Markets at BNP Prime Peregrine Securities Limited. Mr. Wong holds a Bachelor Degree in Engineering (First Class Honours) from the Imperial College of Science, Technology and Medicine, University of London and was qualified with the Institute of Chartered Accountants in England and Wales. Mr. Wong is also an Executive Director and the Chief Executive Officer of Softbank Investment International (Strategic) Limited and an Independent Non-executive Director of hongkong.com Corporation.

DIRECTORS' REPORT

Brief details in respect of directors and senior management staff (continued)

Senior Management Staff

Mr. Kan Sze Man, aged 32, General Counsel of the Group, joined the Group in 2001. Mr. Kan is a qualified solicitor by profession. Mr. Kan graduated from Wadham College, Oxford University, England in 1993 and qualified as a solicitor in Hong Kong in 1997. He has worked in the commercial department of a leading Hong Kong law firm and a U.K. city firm, until joining Hikari Tsushin International Limited (now known as China City Natural Gas Holdings Limited) as its senior vice president and legal counsel in early 2000.

Mr. Chow Hou Man, aged 33, Financial Controller of the Group, joined the Group in 2001. Mr. Chow graduated from the Baptist University and has over 10 years of financial experience in various companies listed in Hong Kong and overseas and an international firm of certified public accountants. He is a member of both Association of Chartered Certified Accountants and Hong Kong Society of Accountants. Mr. Chow is an executive director of Capital Estate.

Share option schemes and directors' rights to acquire shares

Particulars of the Company's share option schemes are set out in note 28 to the financial statements.

The following table discloses movements in the Company's share options held by a director during the year:

	Option scheme type	Exercise price	Outstanding at 1.4.2003	Granted during year	Exercised during year	Outstanding at 31.3.2004
Director						
Ma Wai Man, Catherine	2001 (Note 1)	0.168	31,500,000	—	—	31,500,000
	2002 (Note 2)	0.14	12,500,000	—	—	12,500,000
			<u>44,000,000</u>	<u>—</u>	<u>—</u>	<u>44,000,000</u>

Share option schemes and directors' rights to acquire shares *(continued)*

Notes:

1. There is a limit on the number of share options under the 2001 Share Option Scheme that may be exercised by each grantee during each period of 12 months commencing from 30th August, 2001 (until 29th August, 2005), namely, the aggregate of (a) 20% of the total number of such share options granted and (b) any unused limits accumulated during previous period(s), subject to the written consent of the executive chairman of the Company to the exercise of share options exceeding such limit.
2. There is a limit on the number of share options under the 2002 Share Option Scheme that may be exercised by each grantee during each period of 12 months commencing from 23rd September, 2002 (until 22nd September, 2006), namely, the aggregate of (a) 20% of the total number of such share options granted and (b) any unused limits accumulated during previous period(s), subject to the written consent of the executive chairman of the Company to the exercise of share options exceeding such limit.

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' interests in shares

Save as disclosed above, as at 31st March, 2004, none of the Company's directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of the Securities and Futures Ordinance (SFO) as recorded in the register kept by the Company under Section 352 of the Securities Future Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' REPORT

Substantial shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that as at 31st March, 2004 the following shareholders had notified the Company of relevant interest in the issued share capital of the Company.

Long position

Name	Capacity	Number of shares	Approximate shareholding percentage
Chung Cho Yee, Mico	Beneficial owner	452,029,000 (Note 1)	29.47%
Earnest Equity Limited	Interest of controlled corporation	450,349,000 (Note 2)	29.36%

Note:

- (1) Being the aggregate of personal interest of Chung Cho Yee, Mico and the corporate interest held by Earnest Equity Limited.
- (2) Earnest Equity Limited ("Earnest Equity"), the entire issued share capital of which is held by Digisino Assets Limited ("Digisino") as trustee of a discretionary trust founded by Mr. Chung Cho Yee, Mico, who together with his spouse and children are the current discretionary beneficiaries. Further, the entire issued share capital of Digisino is held by Mr. Chung Cho Yee, Mico and that both Digisino and Earnest Equity are corporations controlled by him.

Code of best practice

In the opinion of the directors, the Company was in compliance with the Code of Best Practice as set out in the Appendix 14 of the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange throughout the year, except that the independent non-executive directors of the Company are not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with Bye-law 99(A), 102(B) and 182 of the Company's Bye-laws.

Exposure to borrowers and other specific circumstances that may require disclosure

As at 31st March, 2004, the aggregate amount of advances made by the Group to its associates was approximately HK\$40,197,000. These amounts were unsecured, interest-free and had no fixed repayment terms. Particulars of these advances are set out in note 17 to the financial statements.

As at 31st March, 2004, the guarantee given by the Company to banks in respect of banking facilities granted to its associate amount to approximately HK\$101,000,000. The banking facilities utilised by the associate amounted to HK\$77,000,000 as at 31st March, 2004. Details of the guarantee are set out in note 34 to the financial statements.

The aggregate of all amounts due from and guarantee given to secure obligations of the associates amounted to approximately HK\$141,197,000 as at 31st March, 2004, which represents approximately 19.8% of the net asset value of the Group as set out in consolidated balance sheet on page 19.

The proforma combined balance sheet of the associates as at 31st March, 2004, which includes the assets and liabilities of Concord Way Limited, Cherry Developments Limited and Siu Wah Investments Limited, is as follows:

	HK\$'000
Non-current assets	164,457
Current assets	198
Current liabilities	(89,498)
Net current liabilities	(89,300)
Non-current liabilities	(77,000)
Deficiency of shareholders' funds	(1,843)

Subsequent to the balance sheet date, all amounts due from the associates of approximately HK\$40,197,000 were repaid, and the guarantee given to secure obligations of the associate of approximately HK\$101,000,000 was released.



DIRECTORS' REPORT

Post balance sheet events

Details of the significant post balance sheet events are set out in note 39 to the financial statements.

Auditors

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Choo Yeow Ming

EXECUTIVE CHAIRMAN

14th July, 2004