

## DIRECTORS' REPORT

The directors present their report together with the audited accounts of the Company and its subsidiaries (together the "Group") for the year ended 31 March 2004.

### PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries and associated companies of the Company are set out in notes 31 and 32 to the accounts.

The analysis of the principal activities and geographical locations of the operations of the Group for the year ended 31 March 2004 is set out in note 3 to the accounts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2004 are set out in the Consolidated Profit and Loss Account on page 29.

No interim dividend was declared (2003: Nil) and the directors do not recommend the payment of a final dividend for the year ended 31 March 2004 (2003: Nil).

### SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the share capital of the Company during the year and details of movement in share options during the year are set out in note 23(b) to the accounts.

### RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 24 to the accounts.

### PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 12 to the accounts.

### PRINCIPAL PROPERTIES

Details of the principal properties held are set out on page 68.

### GROUP FINANCIAL INFORMATION

A summary of results, assets and liabilities of the Group for the five years ended 31 March 2004 is set out on page 67.



## DIRECTORS' REPORT

### MAJOR SUPPLIERS AND CUSTOMERS

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

#### Purchases

– the largest supplier	21%
– five largest suppliers in aggregate	51%

#### Sales

– the largest customer	24%
– five largest customers in aggregate	54%

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

### DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

#### *Executive directors*

Mr. Lo Lin Shing, Simon (*Chairman*)

Ms. Yvette Ong (*Managing Director and Chief Executive Officer*)

#### *Non-executive directors*

Mr. To Hin Tsun, Gerald

Mr. Lau Ko Yuen, Tom (resigned on 9 June 2003)

#### *Independent non-executive directors*

Mr. Peter Pun

Mr. Wei Chi Kuan, Kenny

In accordance with Bye-law 87 of the Bye-laws of the Company, Mr. To Hin Tsun, Gerald will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

## DIRECTORS' INTERESTS AND SHORT POSITIONS

Save as disclosed under the section headed "SHARE OPTION SCHEMES" below, as at 31 March 2004, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the provisions of Divisions 7 and 8 of 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") or which were recorded in the register required to be kept by the Company under section 352 of the SFO.

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

So far as is known to the directors of the Company, as at 31 March 2004, the persons or companies (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

### Long position in the shares of the Company

Name of shareholder	Capacity	Number of shares	Percentage of shareholding
Best Cyber Limited	Beneficial owner	1,600,419,388	27.48%
Asia Logistics Technologies Limited	Interest of a controlled corporation	1,600,419,388 (Note)	27.48%

Note: Best Cyber Limited was a wholly-owned subsidiary of Asia Logistics Technologies Limited. Accordingly, Asia Logistics Technologies Limited was deemed to be interested in 1,600,419,388 shares held by Best Cyber Limited under the SFO.

Save as disclosed above, as at 31 March 2004, the Company had not been notified by any persons or companies (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO.



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### DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 March 2004, the following director is considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules as set out below:

<b>Name of director</b>	<b>Name of entity which businesses are considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of interest of the director in the entity</b>
To Hin Tsun, Gerald	New World Telephone Holdings Limited and its subsidiaries	Provision of fixed line, mobile and other telecommunications services	Director

As the board of directors of the Company is independent from the board of the aforesaid companies and the above director is unable to control the board of the Company, the Group is capable of carrying its businesses independently of, and at arms length from, the businesses of such companies.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's businesses 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.

### DIRECTORS' SERVICE CONTRACTS

None of the directors has service contract with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

### MANAGEMENT CONTRACTS

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

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "SHARE OPTION SCHEMES" below, at no time during the year was the Company or any of its subsidiaries a party to any other arrangements to enable the directors or chief executive or any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, its subsidiaries or any other body corporate.

## SHARE OPTION SCHEMES

Under the share option schemes adopted by the Company on 24 July 1990 (the "Expired Option Scheme") and 22 September 2000 (the "Terminated Option Scheme"), options were granted to certain directors and employees of the Company entitling them to subscribe for shares of HK\$0.02 each in the capital of the Company. The Expired Option Scheme expired on 23 July 2000 while the Terminated Option Scheme was terminated on 28 August 2002 upon the adoption of a new share option scheme (the "Existing Option Scheme") by the Company.

The following is a summary of the terms of the Existing Option Scheme:

### 1. Purpose

The purpose of the Existing Option Scheme is to provide incentives or rewards for the contribution of the participants to the Group and to enable the Group to recruit and/to retain high-calibre employees and attract human resources that are valuable to the Group.

### 2. Participants

The participants of the Existing Option Scheme include any director, employee, consultant, agent or advisor of the Group or any entity in which the Group holds an interest.

### 3. Number of shares available for issue

The total number of shares available for issue under the Existing Option Scheme is 582,496,116 which represents 10% of the issued share capital of the Company as at the date of this report.

### 4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue unless separately approved by the shareholders in general meeting.

### 5. Option period

An option may be exercised in accordance with the terms of the Existing Option Scheme at any time during the period to be notified by the directors to the grantee, but in any event such period of time must not be more than 10 years from the date of grant.

### 6. Vesting period

The directors may, if consider appropriate, determine the minimum period for which an option must be held before it can be exercised.



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### 7. Amount payable on acceptance of option

Upon acceptance of the offer for an option, the grantee shall pay HK\$1.00 as consideration for the grant.

### 8. Exercise price

The subscription price for a share in respect of any option granted shall be a price determined by the directors at their absolute discretion but shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for 5 trading days immediately preceding the offer date; and (iii) the nominal value of a share.

### 9. Remaining life of the scheme

The Existing Option Scheme is valid and effective for a term of 10 years commencing from 28 August 2002.

No share options have been granted under the Existing Option Scheme. Details of the movement in outstanding share options, which have been granted under the Expired Option Scheme and the Terminated Option Scheme, during the year are as follows:

Name or category of participant	Date of grant	Exercise price HK\$	Exercise period	Vesting Period (Note)	Number of shares subject to options			
					As at 1 April 2003	Exercised during the year	Lapsed during the year	As at 31 March 2004
<i>Director</i>								
Yvette Ong	22-7-2000	0.2395	22-7-2000 to 21-7-2003	22-7-2000 to 21-7-2002	6,000,000	–	(6,000,000)	–
	17-4-2002	0.0520	17-4-2002 to 16-4-2009	17-4-2002 to 16-4-2004	30,000,000	–	–	30,000,000
<i>Employees</i> (including directors of subsidiaries)	16-11-2000	0.1552	16-11-2000 to 15-11-2007	16-11-2000 to 15-11-2002	4,350,000	–	–	4,350,000
	17-4-2002	0.0520	17-4-2002 to 16-4-2009	17-4-2002 to 16-4-2004	41,276,000	–	(15,368,000)	25,908,000
					81,626,000	–	(21,368,000)	60,258,000

*Note:* The options are vested in tranches during the vesting period.

## CONNECTED TRANSACTION

The outstanding balance of the shareholder's loans advanced by the Group to Darierian Worldwide Limited, a 51% owned subsidiary of the Company, as at 31 March 2004 amounted to HK\$50,275,447. Except for a principal amount of HK\$19,220,000 which carries interest at 5% per annum, the shareholder's loans are unsecured, interest free and repayable on demand.

## GROUP BORROWINGS

Details of the Group's borrowings are set out in notes 21 and 22 to the accounts.

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

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

## PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in Bermuda being the jurisdiction in which the Company was incorporated.

## CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the year.

The audit committee of the Company currently comprises Messrs. Peter Pun and Wei Chi Kuan, Kenny who are independent non-executive directors of the Company and their principal duties include the review and supervision of the Company's financial reporting process and internal controls.

## EMPLOYEES SCHEME

As at 31 March 2004, the Group employed approximately 105 full-time employees mainly in Hong Kong and Mainland China. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from retirement schemes, year-end bonuses and share options are awarded to the employees according to the assessment of individual performance and industry practice. Structured training programs are also offered for staff training and development.



## DIRECTORS' REPORT

### DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES (VERSION EFFECTIVE PRIOR TO 31 MARCH 2004)

As at 31 March 2004, the Group had advances toward the affiliated companies in a total sum of HK\$187 million which exceeds 25% of the Group's net assets. A pro-forma combined balance sheet of these affiliated companies and the Group's attributable interest in these companies as at 31 March 2004 are presented below:

	<b>Unaudited pro-forma combined balance sheet</b> <i>HK\$'000</i>	<b>Group's attributable interest</b> <i>HK\$'000</i>
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment	6,581	1,316
Investment in associated companies	658	329
	<u>7,239</u>	<u>1,645</u>
Current Assets		
Debtors, prepayments and other deposits	21,519	9,044
Cash and bank balances	237	47
	<u>21,756</u>	<u>9,091</u>
Current Liabilities		
Creditors, deposits and accruals	(24,439)	(9,628)
Amount due to immediate holding company	(306,494)	(153,247)
	<u>(330,933)</u>	<u>(162,875)</u>
Net current liabilities	<u>(309,177)</u>	<u>(153,784)</u>
Total assets less current liabilities	(301,938)	(152,139)
Non-current liabilities		
Long term loans	(116,052)	(23,210)
Net liabilities	<u>(417,990)</u>	<u>(175,349)</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	45,426	9,085
Reserves	(463,416)	(184,434)
	<u>(417,990)</u>	<u>(175,349)</u>



## D I R E C T O R S ' S R E P O R T

**AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Yvette Ong**

*Managing Director*

Hong Kong, 16 July 2004

