

DIRECTORS' REPORT

The Directors have pleasure in submitting their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group's are (i) hotel operations, (ii) design, development and distribution of hi-tech electronic products, (iii) trading of electronic products related materials and (iv) strategic investments in the PRC.

RESULTS AND DIVIDEND

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

The Directors do not recommend the payment of a dividend and no dividend was paid during the year under review (2003: Nil).

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 2004 is set out in note 14 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest customers accounted for 54.62% of the Group's total sales. The largest customer accounted for 35.6% of the Group's total sales.

During the year, the Group's five largest suppliers accounted for 81.2% of the Group's total purchases. The largest supplier accounted for 37.80% 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.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 31 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the financial statements.

BORROWINGS

Particulars of the Group's bank loans and other borrowings are set out in note 25 to the financial statements.

RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 34 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2004 are set out in note 18 to the financial statements.

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 on page 62.

DIRECTORS' REPORT

DIRECTORS

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

Executive directors

LIU Xue Lin	
CHEN Ying Feng	
Simon SHI Hao	(appointed on 25 March 2004)
YAO Ke Ming	(appointed on 25 March 2004)
LIM Ka Thiam	(appointed on 30 March 2004)
LEE Tiong Hock	(resigned on 25 March 2004)
LAW Yip Wai, Benjamin	(resigned on 30 March 2004)

Independent Non-executive directors

LIU Kwok Fai, Alvan
CHOW Siu Ting

In accordance with Bye-Law 99(A) of the Company's Bye-Laws, Messrs. Alvan Liu Kwok Fai and Chen Ying Feng shall retire from office by rotation at the forthcoming annual general meeting. Mr. Chen will not offer himself for re-election whereas Mr. Liu being eligible will offer himself for re-election at the meeting.

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' INTERESTS IN COMPETING BUSINESS

Save as Mr. Alvan Li Kwok Fai is an independent non-executive director of Fortune Telecom Holdings Limited which may compete with the hi-tech electronic business of the Group, 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 2004 and up to the date of this report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2004, the interests and short positions of the Directors in the Shares or underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) to be entered into the register maintained by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name	Number of Shares Corporate Interest	Approximate Shareholding
Mr. LIU Xue Lin	250,036,000*	23.55%

* *These Shares are held through Open Mission Assets Limited, which is beneficially owned by Mr. LIU Xue Lin.*

Save as disclosed above and in the section headed "Interests and Short Positions of Shareholders Discloseable under the SFO" below, as at 31 March 2004, none of the Directors or the chief executive of the Company had any interests or short positions in any Shares or underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) to be entered into the register maintained by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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's major shareholder, Open Mission Assets Limited, continued to show its financial support to the Group by advancing shareholder's loan of up to HK\$115.27 million. Moreover, Open Mission has agreed to waive interest (approximately HK\$1.24 million) against the Company for the year ended 31 March 2004 (2003: HK\$3.28 million).

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.

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.

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 which is the holding company of Harbour Plaza Kunming Co. Ltd. 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 2004 and there had been no exercise of convertible securities, options, warrants or similar rights during the year.

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.

MANAGEMENT CONTRACT

In November 2002, 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.

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INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 March 2004, so far as was known to the Directors, the following persons (other than the Directors or the chief executive of the Company) 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 were, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital:

Long positions in the Shares and underlying Shares of the Company:

Name	Notes	Nature of interest	Number of Underlying Shares	Number of Existing Shares	Percentage of Issued Share Capital
Ms MA Siu Fong	1	Corporate interest	250,036,000*	–	23.55%
Mr CHU Yuet Wah	1	Corporate interest	250,036,000*	–	23.55%
Kingston Finance Limited	1	Security interest	250,036,000	–	23.55%
Open Mission Assets Limited	1	Beneficial owner	–	250,036,000#	23.55%
Mr LI Ka Shing	2, 3 & 4	Founder of discretionary trusts and interest of controlled corporations	203,947,368	2,000	19.21%
Li Ka-Shing Unity Trustee Corporation Limited	2, 3 & 4	Trustee and beneficiary of a trust	203,947,368	2,000	19.21%
Li Ka-Shing Unity Trustcorp Limited	2, 3 & 4	Trustee and beneficiary of a trust	203,947,368	2,000	19.21%
Li Ka-Shing Unity Trustee Company Limited	2, 3 & 4	Trustee	203,947,368	2,000	19.21%
Cheung Kong (Holdings) Limited	2, 3 & 4	Interest of controlled corporations	203,947,368	2,000	19.21%
Hutchison Whampoa Limited	2, 3 & 4	Interest of controlled corporations	203,947,368	2,000	19.21%
Hutchison International Limited	2 & 4	Beneficial owner Interest of controlled corporations	203,947,368 –	– 2,000	19.21% 0.00018%

DIRECTORS' REPORT

Name	Notes	Nature of interest	Number of Underlying Shares	Number of Existing Shares	Percentage of Issued Share Capital
Promising and International Inc.	4	Interest of controlled corporations	–	2,000	0.00018%
Hutchison Harbour Ring Limited	4	Interest of controlled corporations	–	2,000	0.00018%
Hutchison Ring Toys Group Limited	4	Interest of controlled corporations	–	2,000	0.00018%
Billymax Investments Limited	4	Beneficial owner	–	2,000	0.00018%
Mr. Siu Ting	5	Beneficial owner	–	84,000,000	7.9%

Notes:

- * These shares represent the same security interest held by Kingston Finance Limited.

The shareholding is duplicated in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" disclosed above.
- Hutchison International Limited ("HIL") is the holder of a convertible note due 2004 issued by the Company pursuant to the sale and purchase agreement dated 24 July 2002. As at 31 March 2004, the total outstanding principal amount of the convertible note is HK\$155 million. If HIL exercises the conversion rights attached to the convertible note in full at the initial conversion price of HK\$0.76, a total of 203,947,368 new Shares will be issued to HIL. Under the SFO, HIL is deemed to be interested in these 203,947,368 underlying Shares.

Certain subsidiaries of CKH are entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Hutchison Whampoa Limited ("HWL"). HIL is the wholly-owned subsidiary of HWL.

By virtue of the SFO, each of Mr Li Ka-Shing being the settlor and may being regard as a founder of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1, CKH and HWL was deemed to be interested in the 203,947,368 underlying Shares held by HIL.
- Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of a discretionary trust ("DT2") each holds units in The Li Ka-Shing Unity Trust ("UT1").

Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of UT1 together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold interests in the shares of Cheung Kong (Holdings) Limited ("CKH").

By virtue of the SFO, each of Mr Li Ka-Shing being the settlor and may being regard as a founder of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1, CKH, HWL, HIL, PLI, HHRL and HRTGL was deemed to be interested in the 2,000 Shares held by BIL.
- Billymax Investments Limited ("BIL") is a wholly owned subsidiary of Harbour Ring Toys Group Limited ("HRTGL") which in turn is a wholly-owned subsidiary of Hutchison Harbour Ring Limited ("HHRL"). Promising Land International Inc. ("PLI") holds one-third or more of the issued share capital of HHRL and is a wholly owned subsidiary of HIL.

The Shares are held in the name of HKSCC Nominees Limited.

DIRECTORS' REPORT

Save as disclosed above and in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" and so far as was known to the Directors, as at 31 March 2004, there were no other persons who 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 were, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 March 2004 in compliance 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, 26 July 2004