

Report of the Directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 on the financial statements.

SEGMENT INFORMATION

An analysis of the turnover and results by the principal activities and geographical locations of the operations of the group for the financial year are set out in note 12 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	Purchases
The largest customer	11%	
Five largest customers in aggregate	38%	
The largest supplier		13%
Five largest suppliers in aggregate		42%

At no time during the year have 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 share capital) had any interest in the group's five largest customers or suppliers.

FINANCIAL STATEMENTS

The loss of the group for the year ended 31 March 2004 and the state of the company's and the group's affairs as at that date are set out in the financial statements on pages 20 to 70.

The directors do not recommend the payment of a final dividend for the year ended 31 March 2004 (2003: HK1 cent per share).

FIXED ASSETS

Details of movements in fixed assets of the group during the year are set out in note 13 on the financial statements.

RESERVES

Details of the movements in reserves of the group and of the company during the year are set out in note 29 on the financial statements.

DIRECTORS

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

Executive directors

Fong Kit Wah, Alan, *Chairman*

Rourke James Grierson

Cheung Miu Sin

Fong Pok Chung, Michael

(resigned on 18 July 2003)

Non-executive director

Yin Jie

Independent non-executive directors

Law Yui Lun

Wong Man Chung, Francis

In accordance with article 108 of the company's articles of association, Mr. Wong Man Chung, Francis will retire and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

The biographical details of the directors and senior management are set out on pages 8 to 9 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors entered into a service contract with the company for a fixed term of three years commencing on 1 March 2002. The service contract with executive directors can be terminated by not less than three months' notice in writing serving by either party.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The directors and chief executive of the company who held office at 31 March 2004 had the following interests in the shares of the company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests required to be kept by the company under section 352 of the SFO or notified to the company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

(i) *Interests in the company*

Name of director	Ordinary shares of HK\$0.1 each				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Fong Kit Wah, Alan	900,000	–	131,000,000 <i>(Note)</i>	–	131,900,000

Note: These shares are registered in the name of and beneficially owned by Speedway Investment Holding Limited ("Speedway"), a company incorporated in the British Virgin Islands ("BVI"), and whose entire issued share capital is wholly-owned by Fong Kit Wah, Alan.

(ii) *Interests in a subsidiary of the company*

Fong Kit Wah, Alan also has beneficial interests in his personal capacity in 5,000 non-voting deferred shares of HK\$1 each in Yardway Limited and 75% of the issued share capital in Yardway Holdings Limited which in turn is interested in 100 non-voting deferred shares of HK\$1 each in Yardway Limited.

(iii) *Interests in underlying shares*

The directors and chief executive of the company have been granted options under the company's share option scheme, details of which are set out in the section "Share option scheme" below.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Save as disclosed above, none of the directors and chief executive of the company or any of their spouses or children under eighteen years of age has interests or short positions in the shares and underlying shares or debentures of the company, subsidiaries or other associated corporations, as recorded in the register required to be kept by the company under section 352 of the SFO or notified to the company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 on the financial statements, no contract of significance to which the company, its holding company, subsidiaries was a party, in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' and chief executive's interests in shares and short positions in shares, underlying shares and debentures" above and "Share option scheme" below, at no time during the year was the company or any of its holding company or subsidiaries a party to any arrangements to enable the directors, chief executive and their respective spouses and children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate.

CONNECTED TRANSACTIONS

Details of material connected transactions for the year are set out in note 33 on the financial statements and the announcement of the group dated 13 February 2004.

SHARE OPTION SCHEME

The company operates a share option scheme which was adopted on 28 March 2002, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the group's operations. Under this scheme, the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options to subscribe for shares of the company. The share option scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

In respect of the maximum entitlement of each participant under the scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the company's ordinary shares in issue.

The subscription price for share under the share option scheme shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of shares of the company as stated in the daily quotations sheet of the SEHK on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the company as stated in the SEHK's daily quotations for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the shares of the company.

SHARE OPTION SCHEME *(Continued)*

On 9 September 2002, share options were granted under the share option scheme to subscribe for 10,000,000 ordinary shares of the company for a nominal consideration of HK\$1 in total per grantee. The share options granted entitled the holders to exercise at any time between 16 September 2002 to 15 September 2005 both days inclusive at an exercise price of HK\$0.365 per share option. The closing price of shares immediately before the date of grant of share options was HK\$0.41. The vesting period of the share options is from the date of grant until the commencement of the exercisable period. The total number of shares available for issue under the share option scheme at 31 March 2004 represented 3.2% (2003: 3.6%) of the issued share capital of the company at that date. No share option was exercised to subscribe for shares of the company during the year.

At 31 March 2004, the directors and employees of the company had the following interests in options to subscribe for shares of the company (market value per share at 31 March 2004 is HK\$0.25) under the share option scheme of the company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 each of the company.

Name or category of participant	Date granted	Exercise price per share HK\$	Period during which options exercisable	Number of share options				At 31 March 2004
				At 1 April 2003	Granted during the year	Exercised during the year	Cancelled during the year	
<i>Executive directors</i>								
Fong Kit Wah, Alan	9 September 2002	0.365	16 September 2002 to 15 September 2005	3,000,000	–	–	–	3,000,000
Rourke James Grierson	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	–	–	–	1,000,000
Fong Pok Chung, Michael	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	–	–	(1,000,000)	–
Cheung Miu Sin	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	–	–	–	1,000,000

SHARE OPTION SCHEME (Continued)

Name or category of participant	Date granted	Exercise price per share HK\$	Period during which options exercisable	Number of share options				
				At 1 April 2003	Granted during the year	Exercised during the year	Cancelled during the year	At 31 March 2004
<i>Non-executive director</i>								
Yin Jie	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	–	–	–	1,000,000
<i>Independent non-executive directors</i>								
Law Yui Lun	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	–	–	–	1,000,000
Wong Man Chung, Francis	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	–	–	–	1,000,000
Senior executive	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	–	–	–	1,000,000
				<u>10,000,000</u>	<u>–</u>	<u>–</u>	<u>(1,000,000)</u>	<u>9,000,000</u>

The financial impact of share options granted is not recorded in the balance sheet until such time as the share options are exercised, and no charge is recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the company in the share premium account. Share options which are cancelled prior to their exercise dates are deleted from the register of outstanding share options.

SHARE OPTION SCHEME *(Continued)*

The directors consider it inappropriate to disclose the value of share options granted during the year under review because there was no readily market value of the share options on the ordinary shares of the company and any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions. Therefore the directors believe that the costs for disclosing the value of options do not justify the benefits provided.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

The register of interests in shares and short positions maintained under section 336 of the SFO Ordinance shows that at 31 March 2004, other than the interests disclosed above in respect of Fong Kit Wah, Alan and Speedway, the following company had an interest of 5% or more in the issued share capital of the company:

	Ordinary shares held	Percentage of total issued shares
Goodwell Group Invest Limited ("Goodwell")	62,056,000	22.16% <i>(Note)</i>

Note: These shares are registered in the name of and beneficially owned by Goodwell, a company incorporated in the BVI, and whose entire issued share capital is wholly-owned by China National Aviation Corporation (Group) Limited ("CNAC"), a company incorporated in Hong Kong. CNAC is in turn ultimately wholly-owned by China National Aviation Holding Limited, a state-owned enterprise established in the PRC.

Save as stated above, no other person is recorded in the register of substantial shareholders maintained under section 336 of the SFO as having an interest of 5% or more in the issued share capital of the company as at 31 March 2004.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the company's articles of association or the laws of the Cayman Islands which would oblige the company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASES, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the company and the group as at 31 March 2004 are set out in note 22 on the financial statements.

FIVE YEAR 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 pages 71 and 72 of the annual report.

RETIREMENT BENEFIT SCHEMES

Since 1 December 2000, the company's subsidiaries are required to join the Mandatory Provident Fund (the "MPF"), managed by an independent approved MPF trustee, under the requirements of the Hong Kong Mandatory Provident Fund Schemes Ordinance.

A Mandatory Provident Fund Scheme (the "MPF Scheme") has been set up by the group for this purpose and employer's contributions are made under the MPF Scheme. Contributions are made based on 5% of each employee's salary subject to a cap of monthly salary of HK\$20,000, and are charged to the income statement as they became payable in accordance with the rules of the MPF Scheme.

The employees in the group's PRC subsidiary are members of the state-managed retirement scheme. The PRC subsidiary is required to contribute a specified percentage of its payroll to the scheme. The only obligation of the group with respect to the retirement scheme is to make the specified contributions.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the group are set out in note 34 on the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The company has complied throughout the year with the Code of Best Practice as set out by the SEHK in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK ("Listing Rules") except that the independent non-executive directors of the company are not appointed for a specific term but are subject to retirement by rotation and re-election at the company's annual general meeting in accordance with company's articles of association.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors and reports to the board of directors. They are responsible for dealing with audit related matters which include reviewing and supervising the financial reporting process and internal control to protect the interests of the shareholders.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

Fong Kit Wah, Alan
Chairman

Hong Kong, 23 July 2004