

# Report of the Directors

The directors herein present their report together with the audited financial statements of the Company and of the Group for the financial year ended 31 March 2005.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the financial year.

## **RESULTS AND DIVIDENDS**

The Group's loss for the financial year ended 31 March 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 19 to 71.

The directors do not recommend the payment of any dividend in respect of the financial year.

## **SUMMARY FINANCIAL INFORMATION**

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 March 2005, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 72 and 73, respectively. The summary does not form part of the audited financial statements.

## **FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in the fixed assets and investment properties of the Group during the financial year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 74.

## **SHARE CAPITAL, CONVERTIBLE SECURITIES, SHARE OPTIONS AND WARRANTS**

Details of movements in the share capital, convertible securities, share options and warrants of the Company during the financial year, together with the reasons therefor, are set out in notes 24, 22 and 25 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the financial year.

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## RESERVES

Details of movements in the reserves of the Company and of the Group during the financial year are set out in note 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

Under the Bermuda Companies Act 1981, the Company's contributed surplus of HK\$186,548,000 may be distributed under certain circumstances and accordingly, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981 amounted to HK\$86,706,000 as at 31 March 2005. In addition, the Company's share premium account and capital redemption reserve, amounted to HK\$115,443,000 as at 31 March 2005, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 March 2005, the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the Group's turnover and total purchases, respectively.

## DIRECTORS

The directors of the Company during the financial year ended 31 March 2005 were:

Kwong Kai Sing, Benny (*Chairman*)

Lo Ki Yan, Karen (*Vice Chairman*) (appointed on 28 February 2005)

Ong Peter (*Managing Director*)

Poon Chi Wan

Chung Yuk Lun\*

Chan Sze Hung\*\*

To Shing Chuen\*\*

Frank H. Miu\*\* (appointed on 13 April 2004)

\* *Non-executive director*

\*\* *Independent non-executive directors*

In accordance with bye-law 91 of the Company, Ms. Lo Ki Yan, Karen will retire from office at the forthcoming AGM. In addition, Mr. Chan Sze Hung and Mr. To Shing Chuen will retire from office by rotation at the forthcoming AGM in accordance with bye-law 99 of the Company. Ms. Lo Ki Yan, Karen, Mr. Chan Sze Hung and Mr. To Shing Chuen, all being eligible, offer themselves for re-election as directors at the forthcoming AGM.

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## DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the financial year.

## MANAGEMENT CONTRACTS

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

## DIRECTORS' INTERESTS IN SHARES

At 31 March 2005, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

*Long positions in the ordinary shares of the Company:*

Name of director	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Kwong Kai Sing, Benny	103,400,000	–	103,400,000	1.08

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 March 2005, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosures in note 25 to the financial statements, at no time during the financial year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SHARE OPTION SCHEMES

Concerning the share options granted during the financial year to the directors, employees and, a director and employee of an investee entity, as detailed in note 25 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long positions:*

<b>Name</b>	<b>Notes</b>	<b>Capacity and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
Chu Yuet Wah	(a)	Through a controlled corporation	2,000,005,550	20.81
Ma Siu Fong	(a)	Through a controlled corporation	2,000,005,550	20.81
Kingston Securities Limited	(a)	Directly beneficially owned	2,000,005,550	20.81
Found Macau Investments International Limited	(b)	Directly beneficially owned	1,000,000,000	12.58
Get Nice Incorporated	(c)	Through a controlled corporation	540,000,000	5.62
Get Nice Holdings Limited	(c)	Through a controlled corporation	540,000,000	5.62
Honeylink Agents Limited	(c)	Directly beneficially owned	540,000,000	5.62

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### **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)**

Notes:

- (a) These shares deemed to be interested in by virtue of placing agreement dated 24 January 2005 entered into between Kingston Securities Limited ("Kingston") and the Company represent the same parcel of shares and were held by Kingston. Kingston is 51% owned by Ms. Chu Yuet Wah 49% owned by Ma Siu Fong.
- (b) Found Macau Investments International Limited is deemed to be interested in these shares upon approval of shareholder in SGM held on 14 March 2005.
- (c) These shares represent the same parcel of shares which Get Nice Incorporated ("Get Nice"). Get Nice is a wholly-owned subsidiary of Get Nice Holdings Limited. Get Nice Holdings Limited is owned as to approximately 33.72% by Honeylink Agents Limited.

Save as disclosed above, as at 31 March 2005, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests in shares" above, had registered an interest in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### **CONNECTED TRANSACTIONS**

- (a) On 22 January 2005, Rightmind Developments Limited ("Rightmind"), a direct wholly-owned subsidiary of the Company, entered into a conditional verbal agreement (the "Verbal Agreement"), whereby Rightmind agreed, amongst other things, (i) to acquire 20% equity interest in Found Macau Investments International Limited ("Found Macau") at a consideration of US\$20; (ii) to become a party to a shareholders agreement relating to Found Macau (the "Shareholders Agreement"); and (iii) to make a shareholders loan of HK\$100 million to Found Macau (the "Found Macau Loan") (collectively the "Transactions"). Found Macau is an investment holding company incorporated in the British Virgin Islands and it currently intends to directly or indirectly invest in gaming, entertainment and related businesses in Macau through its subsidiaries to be incorporated. As Mr. Lao Hin Chun, the stepfather of Mr. Peter Ong (the managing director of the Company), is one of the founders and shareholders of Found Macau at the date of the Verbal Agreement, the Transactions constitute major and connected transactions under Rule 14.06 and Rule 14A.13 of the Listing Rules and were subject to the approval of independent shareholders at a special general meeting of the Company (the "SGM").

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### **CONNECTED TRANSACTIONS** (continued)

On 14 March 2005, the necessary independent shareholders' approval was obtained in the SGM and as at 31 March 2005, Rightmind had advanced HK\$50 million to Found Macau, which constituted part of the Found Macau Loan. The balance of the Found Macau Loan of HK\$50 million was satisfied subsequent to the balance sheet date, in April 2005, by the issue of certain new convertible notes of the Company with a principal amount of HK\$50 million as further detailed in note 33(c) to the financial statements. The Found Macau Loan is unsecured, interest-free and is repayable after 8 years from the date of drawdown. On the same date, pursuant to the Verbal Agreement, the 20% equity interest in Found Macau was transferred to Rightmind and Rightmind has effectively become a party to the Shareholder Agreement dated 22 January 2005, via a deed of adherence entered into by Rightmind.

Further details of the above, including the Transactions and the underlying agreements, are also set out in a circular of the Company dated 25 February 2005.

- (b) As disclosed in the Report of the Directors of the Company's 2004 Annual Report, in the prior year, the Group acquired 20% of the issued share capital of a Macau-incorporated company, King Kong International Investments Limited (in Portuguese, King Kong Internacional Investimentos, Limitada) ("King Kong"), from Mr. Peter Ong for a consideration of HK\$24,500. The Group had also provided a shareholder loan of HK\$40,000,000 to King Kong in accordance with the verbal agreement between the shareholders of King Kong. The loan to King Kong was interest-free, unsecured, and had no fixed repayment terms. Further details of the terms of verbal agreements/arrangements agreed with King Kong and other relevant parties in connection with the Company's investment in and loan advance to King Kong are also set out in an announcement of the Company dated 22 December 2003.

During the year ended 31 March 2005, after the verbal agreement agreed between all relevant parties, the profit sharing ratio between the Neptune VIP Club and the Casino Operator was revised from 40.25:59.75 to 40:60, effective from 1 December 2004. For the year ended 31 March 2005, dividends/profits distributed by King Kong to the Group amounted to HK\$6,556,000.

On 18 July 2005, the shareholder loan of HK\$40,000,000 to King Kong was repaid.

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### DISCLOSURES PURSUANT TO RULE 13.13 OF THE LISTING RULES

In accordance with the requirements of Rule 13.13 of the Listing Rules, the directors of the Company reported below advances given to the following entities as at 31 March 2005 which represent more than 8% of the relevant percentage ratios (as defined in Rule 14.04(9) of the Listing Rules).

- (a) The Group had provided a shareholder loan of HK\$40,000,000 to King Kong as at 31 March 2005. The loan was interest-free, unsecured and had no fixed repayment terms. The Group had an attributable equity interest of 20% in King Kong as at 31 March 2005. At the date of this report, the loan was repaid by the borrower.
- (b) As at 31 March 2005, Double Smart Finance Limited, a wholly-owned subsidiary of the Company and being a licensed money lender in Hong Kong, had provided loans to the following entities during the course of its businesses. The details of the loans are set out below:
- i) Borrower: Sun Chung Nam Finance Limited  
 Amount of the loan outstanding as at 31 March 2005: HK\$15,000,000  
 Interest rate: 7.5% per annum  
 Maturity date: 4 January 2006  
 Security given: the loan being unsecured  
 Up to the date of this report, the amount being still outstanding.
- ii) Borrower: Radford Development Limited  
 Amount of the loan outstanding as at 31 March 2005: HK\$15,000,000  
 Interest rate: Hong Kong dollar prime rate plus 2% per annum  
 Maturity date: 5 January 2006  
 Security given: the loan being unsecured  
 Up to the date of this report, the amount being still outstanding.
- iii) Borrower: Pioneered Technology Limited  
 Amount of the loan outstanding as at 31 March 2005: HK\$35,000,000  
 Interest rate: 10% per annum  
 Maturity date: 22 March 2005  
 Security given: the loan being unsecured  
 At the date of this report, HK\$30,000,000 has been repaid by the borrower.  
 The remaining balance of HK\$5,000,000 was written off.
- (c) The Group has provided a shareholder loan of HK\$50 million to Found Macau as at 31 March 2005. The loan is interest-free, unsecured and repayable after 8 years from the date of drawdown on 21 March 2005.

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## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules, throughout the financial year, except that the non-executive director and the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company’s in accordance with the Company’s bye-laws.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors and one non-executive director of the Company.

## **AUDITORS**

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Kwong Kai Sing, Benny**

*Chairman*

Hong Kong

27 July 2005