

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st March 2003.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 13 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 23.

The directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

Distributable reserves

Distributable reserves of the Company at 31st March 2003 amounted to HK\$85 million (2002: HK\$104 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividends is proposed to be paid, the Company shall be able to pay its debts as they fall due in ordinary course of business.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of the Cayman Islands.

REPORT OF THE DIRECTORS

Five year financial summary

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out as follows:

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Results					
(Loss)/profit attributable to shareholders	<u>(5,384)</u>	<u>29,342</u>	<u>26,940</u>	<u>31,497</u>	<u>25,943</u>
Assets and liabilities					
Total assets	211,963	179,478	123,696	118,973	111,493
Total liabilities	<u>(116,575)</u>	<u>(60,713)</u>	<u>(66,775)</u>	<u>(63,807)</u>	<u>(57,825)</u>
Shareholders' funds	<u>95,388</u>	<u>118,765</u>	<u>56,921</u>	<u>55,166</u>	<u>53,668</u>

The results, assets and liabilities of the Group for each of the three years ended 31st March 2001 and the results of the Group for the year ended 31st March 2002 have been prepared on the basis of merger accounting as if the group structure which became effective in October 2001, had been in existence throughout the four years then ended. The assets and liabilities of the Group at 31st March 2002 and 31st March 2003, and the results for year ended 31st March 2003 have been prepared on a consolidated basis.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Share options

Pursuant to the Company's share option scheme (the "Scheme") conditionally approved by a written resolution duly passed by the shareholders of the Company on 22nd October 2001, the Board may, at its discretion, offer full-time employees or executives of the Group, including the full-time executive directors and executive directors of any of its subsidiaries, options to subscribe for shares of the Company.

The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives and rewards for their contribution to the Group.

Share options *(Continued)*

The maximum number of shares in respect of which options may be granted (including shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Scheme and under any other share option scheme of the Company must not in aggregate exceed 10% of the shares in issue.

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised at any time under the Scheme and any other share option scheme of the Group shall not exceed 30% of the issued share capital of the Company from time to time.

At 31st March 2003, no option has been granted or agreed to be granted under the Scheme. No option may be granted to any one employee, which in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

Unless otherwise terminated or amended, the Scheme will be valid and effective for a period of 10 years commencing on 22nd October 2001, after which no further options will be granted thereunder.

Pursuant to the Scheme, HK\$1.00 is payable by the grantee to the Company on acceptance of the offer of a grant of options.

The exercise price of options pursuant to the Scheme is absolute discretion determined by the Board and will not be less than the highest of the following:

- (i) The closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share, provided that for the purpose of determining the subscription price of the shares where the shares have been listed on the Stock Exchange for less than 5 business days preceding the date of grant, the issue price of the shares in connection with such listing shall be deemed to be the closing price of the shares for each business day falling within the period before the listing of the shares on the Stock Exchange.

No options have been granted since the establishment of the Scheme.

REPORT OF THE DIRECTORS

Directors

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

Mr. NG Man Chan	
Ms. LI Mi Lai	
Mr. CHAN Fuk Wah	
Mr. SINN Wai Kin, Derek	(resigned on 1st April 2003)
[^] Mr. TONG Hing Chi	
* Mr. LEE Man Kwong	
* Mr. LAM Ming Leung	(resigned on 1st April 2003)
* Mr. LEUNG Siu Cheung	(appointed on 20th February 2003)

[^]: *Non-executive director*

*: *Independent non-executive directors*

In accordance with Article 14(4) of the Company's Articles of Association, all directors retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Directors' service contracts

Each of Mr. NG Man Chan, Ms. LI Mi Lai and Mr. CHAN Fuk Wah has entered into a service contract with the Company for a term of two years commencing 1st September 2001, which may be terminated by either party thereto giving to the other six months' prior notice in writing, which notice period shall not expire at any time during the first year of the term.

Each of Mr. TONG Hing Chi and Mr. LEE Man Kwong has entered into a service contract with the Company for a term of two years commencing 1st September 2001, which may be terminated by either party thereto giving to the other one month's notice in writing.

None of the directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 13 and 14.

Directors' interests in contracts

Details of Mr. NG Man Chan and Ms. LI Mi Lai's interest in contracts of significance in relation to the Group's business are set out in note 29 to the accounts.

REPORT OF THE DIRECTORS

Directors' interests in equity or debt securities

At 31st March 2003, the interests of the directors and chief executives in the shares of the Company and any associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of director	Ordinary shares of HK\$0.10 each in the Company			
	Personal interests	Family interests	Corporate interests (note 1)	Other interests (note 2)
Mr. NG Man Chan	—	—	95,000,000	12,000,000
Ms. LI Mi Lai	—	—	—	12,000,000
Mr. TONG Hing Chi	—	—	—	12,000,000

Notes:

1. Held through Fortune Gold Developments Limited in which Mr. NG Man Chan is legally and beneficially owning shares in.
2. Held through Mei Ah Holdings Limited in which Mr. NG Man Chan, Ms. LI Mi Lai and Mr. TONG Hing Chi are legally and beneficially indirectly owning shares in.

Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that at 31st March 2003, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above under the section of "Directors' interests in equity or debt securities".

	Number of ordinary shares held
Airsirco Profits Limited (note)	22,850,000

Note:

Airsirco Profits Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. LI Kuo Lim.

Management contracts

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

Retirement scheme arrangements

With effect from 1st December 2000, mandatory provident fund scheme (the “MPF Scheme”) was made compulsory as enforced by the Mandatory Provident Fund Schemes Authority of Hong Kong. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. Each of the employer and the employee have to contribute an amount equal to 5% of the relevant income (plus cashable allowances) of the employee to the MPF Scheme. Contributions from the employer are 100% vested in the employees as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to certain exceptions.

Major customers and suppliers

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	17.47%
– five largest suppliers combined	51.83%

Sales

– the largest customer	12.50%
– five largest customers combined	35.47%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company’s issued share capital) had an interest in the major suppliers or customers noted above.

Connected transactions

The related party transactions for the year ended 31st March 2003 as disclosed in note 29 to the accounts in respect of rental paid to related parties also constitute connected transactions. As the amount of these transactions for the year fall within the limit of Chapter 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the “Listing Rules”), they are not subject to any disclosure or shareholders’ approval requirements.

Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules except that a non-executive director, Mr. LEUNG Siu Cheung, was not appointed for a specific term as recommended under the guidelines set out in Appendix 14 of the Listing Rules. According to the Company’s Articles of Association, all directors shall retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. In the opinion of the Board of Directors, this meets the same objective of the Code of Best Practice.

REPORT OF THE DIRECTORS

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group’s audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee now comprises two independent non-executive directors, namely, Mr. LEE Man Kwong and Mr. LEUNG Siu Cheung. Two meetings were held during the current financial year.

Directors’ interest in competing business

There is no information required to be disclosed pursuant to the Listing Rules.

Auditors

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

On behalf of the Board

NG Man Chan

Chairman

Hong Kong, 28th July 2003