

Directors' Report

The board of directors (the "Directors") submit herewith their annual report together with the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company and is also engaged in acting as an agent in the coal business, sales and marketing of coal products. The Group's principal activities consist of sales and marketing of coal products and gold jewellery products. Particulars of the subsidiaries are set out in note 10 on the financial statements.

An analysis of the Group's turnover and contribution to operating loss for the year by principal activities and markets is set out in note 3 on the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 and the state of affairs of the Group and the Company as at that date are set out in the financial statements on pages 19 to 39.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2003.

SHARE CAPITAL

Details of share capital of the Company as at 31 December 2003 are set out in note 16 on the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 18 on the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 9 on the financial statements.

FIVE YEAR 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 40.

RETIREMENT SCHEME

The Group operates a Mandatory Provident Fund scheme. Particulars of this retirement scheme are set out in note 15 on the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

Directors' Report

DIRECTORS

The directors during the year were:

Mr. WONG Lik Ping

Mr. SO Kwok Hoo

Mr. LI King Luk

Mr. NG Ching Wo

Mr. KEE Wah Sze

In accordance with article 98 of the Company's articles of association, Mr. Li King Luk shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

Mr. Ng Ching Wo and Mr. Kee Wah Sze are independent non-executive directors and were appointed for a one-year term expiring on 13 September 2004 and 31 December 2004 respectively.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding 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.

SHARE OPTION SCHEME

At the last annual general meeting of the Company held on 20 June 2003, the shareholders of the Company approved the adoption of a new share option scheme ("the Scheme") and to give the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution. During the year ended 31 December 2003, no share option was granted under the Scheme. Other particulars of the Scheme are set out in note 17 on the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements, which enable a director or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 31 December 2003, the interests and short positions of the directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of the Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in ordinary shares (HK\$0.10 each) of the Company:

	Number of ordinary shares		
	Personal interests	Corporate interests	Total
Mr. Wong Lik Ping	90,750,000	1,070,000,000 (Note)	1,160,750,000

Note: Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,070,000,000 ordinary shares in the Company at 31 December 2003.

Save as disclosed above, none of the directors and chief executives had any interest or short position in the shares, debentures or underlying shares of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

At 31 December 2003, no other person, not being a director or chief executive of the Company, other than the directors or chief executives of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions" above, had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO.

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive directors

Mr. Wong Lik Ping (age 43), Chairman, was appointed as a director of the Company on 14 September 2001. Mr. Wong has over 17 years' experience in trading business and financial industry and has held directorship with various private companies. He has extensive experience and investments in a wide range of businesses in the PRC.

Mr. So Kwok Hoo (age 50) was appointed as a director of the Company on 20 March 1998. Mr. So holds Bachelor degrees in both Applied Science with major in Chemical Engineering and Business Administration obtained in Canada. He has over 20 years of experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong as well.

Directors' Report

BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Executive directors (continued)

Mr. Li King Luk (age 48) was appointed as a director of the Company on 14 September 2001. Mr. Li has over 19 years' experience in corporate management. He worked for a ceramics factory in Shanxi Province, the PRC as factory manager for 6 years. He also has over 13 years of experience in trading. Mr. Lee holds a Bachelor Degree in North Western University of Light Industry of the PRC (中國西北輕工業學院).

Independent non-executive directors

Mr. Ng Ching Wo (age 53) was appointed as an independent non-executive director of the Company on 14 September 2001. Mr. Ng is a partner of Fong & Ng, a solicitors firm in Hong Kong. Mr. Ng graduated from University of Alberta, Canada with the Degrees of Master of Science (1975) and Bachelor of Laws (1980). He was admitted as a barrister and a solicitor in Alberta, Canada in 1981, as a solicitor in the United Kingdom in 1986 and in Hong Kong in 1987. Prior to 1 May 1996, Mr. Ng was a partner of a Canada-based multinational law firm, and stationed in the firm's Hong Kong office from May 1986 to April 1996. His practice concentrates on cross-border corporate, commercial, securities and China-related matters.

Mr. Kee Wah Sze (age 56) was appointed as an independent non-executive director of the Company on 11 April 1997. Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and is a practicing solicitor in Hong Kong for over 20 years specialised in both the commercial and conveyancing fields. He is a Notary Public of Hong Kong, a China Appointed Attesting Offices and holder of Master Degree in Chinese and Comparative Law of City University of Hong Kong and Master Degree in Law of the People's University of the PRC.

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:

	2003 HK\$'000	2002 HK\$'000
Purchases		
– the largest supplier	–	–
– five largest suppliers in aggregate	–	–
Sales		
– the largest customer	40%	17%
– five largest customers in aggregate	93%	61%

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 these suppliers or customers.

Directors' Report

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 Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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 Directors and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Audit Committee comprises two independent non-executive directors, namely Mr. Ng Ching Wo and Mr. Kee Wah Sze. Two meetings were held during the current financial year.

AUDITORS

Grant Thornton were first appointed as auditors of the Company in 2001 in place of the resigning auditors, PricewaterhouseCoopers.

Grant Thornton retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Grant Thornton as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

So Kwok Hoo

Executive Director

Hong Kong, 14 April 2004