

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are property development and management in the Peoples' Republic of China ("PRC"), investment in coal gas production and power generation in northern PRC and investment in the production of raw materials for power generation and construction of highways in the PRC. Details of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the principal activities of the Company and its subsidiaries during the year.

## SEGMENT INFORMATION

No business segment information (primary segment information) has been disclosed for the years presented in the financial statements as the Group is operating in a single business segment which is property development and investment. Substantially all of the Group's operations are located in the PRC and therefore no geographical segment information has been disclosed for the years presented in the financial statements.

## RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 March 2005 and the state of affairs of the Company and the Group at that date are set out in the annual report on pages 21 to 58.

The Directors do not recommend the payment of a dividend in respect of the financial year ended 31 March 2005.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from financial statements and reclassified as appropriate, is set out on page 59 in the annual report. This summary does not form part of the audited financial statements.

## INVESTMENT PROPERTIES AND FIXED ASSETS

Details of movements in investment properties and fixed assets of the Group during the year are set out in notes 16 and 17 respectively to the financial statements. Further details of the Group's investment properties and fixed assets are set out on pages 44 and 45 in the annual report.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons thereof, are set out in note 25 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association ("Articles") or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements.

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the distribution or payment

of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. As at 31 March 2005, the reserves of the Company available for distribution to shareholders comprising the share premium account and accumulated losses amounted to approximately HK\$11,681,000. As at 31 March 2004, in the opinion of the Directors, no reserve was available for distribution to shareholders.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sale to the Group's five largest customers accounted for 96% of the total sale for the year and sale to the largest customer included therein amounted to 33%. Purchase from the Group's five largest suppliers accounted for 100% of the total purchase for the year and purchase from the largest suppliers included therein amounted to 91%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

### DISCLOSURE OF TRADE RECEIVABLES PURSUANT TO RULE 13.20 OF THE LISTING RULES

The table below sets out the details as required by Rule 13.15 of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), of advances to entities by the Group, which continued to exist and were disclosable pursuant to Rule 13.13 of the Listing Rules.

Name of entities	Nature of advances giving rise to disclosable obligations	Aggregate amount due to the Group as at 31 March 2005 (HK\$)	Terms of advances
(1) 大連華邦房地產開發有限公司	Trade receivables resulted from sale by the Group in its ordinary course of business	49,000,000	Unsecured, interest-free and repayable on or before 31 December 2005 or within 30 days from the date of completion of remedial works whichever is later.
(2) 大連民勇集團股份有限公司	Trade receivables resulted from sale by the Group in its ordinary course of business	46,000,000	Unsecured, interest-free and repayable on or before 31 January 2006 or within 30 days from the date of completion of remedial works whichever is later.

# DIRECTORS' REPORT

Name of entities	Nature of advances giving rise to disclosable obligations	Aggregate amount due to the Group as at 31 March 2005 (HK\$)	Terms of advances
(3) 大連遠東肉牛養殖廠	Trade receivables resulted from sale by the Group in its ordinary course of business	23,299,023	Unsecured, interest-free and repayable on or before 30 June 2005 or within 30 days from the date of completion of remedial works whichever is later.

## DIRECTORS

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

### Executive Directors:

Mr. Leung Ngai Man

Mr. Yeung Kit

Mr. Wong Wa Tak

(appointed on 14 January 2005)

### Independent non-executive Directors:

Mr. Chan Sing Fai

Mr. Cai Wei Lun

(appointed on 29 June 2004)

Mr. Leung Wai Cheung

(appointed on 24 September 2004)

The executive Director to be appointed on 19 July 2005 is:

Mr. Tang Yan Tian

In accordance with Article 108(A) of the Articles, Mr. Chan Sing Fai, an independent non-executive Director, will retire as Director by rotation and, being eligible, offer himself for re-election as Director at the forthcoming Annual General Meeting.

Further, in accordance with Article 112 of the Articles, Messrs Leung Wai Cheung and Wong Wa Tak who were appointed an independent non-executive Director with effect from 24 September 2004 and as executive Director from 14 January 2005 by the Board, shall hold office only until the Annual General Meeting and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Mr. Tang Yan Tian will be appointed as an executive Director of the Company on 19 July 2005. In accordance with Article 112 of the Articles, Mr. Tang Yan Tian once appointed with effect from 19 July 2005 by the Board, shall hold office until the Annual General Meeting and, being eligible, will offer himself for re-election at the forthcoming Annual General Meeting.

The term of office of each independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's Articles.

As of 31 March 2005, the Company received from each of its independent non-executive Directors an annual confirmation of his independence pursuant

to Rule 3.13 of the Listing Rules and on such basis considers that each of such independent non-executive Directors has remained to be independent.

Details of Directors' and employees' emoluments are set out in note 13 to the financial statements.

### **EMOLUMENT POLICY**

The Group's emolument policy, including salaries and bonuses, are in line with the local practices where the Company and its subsidiaries operate, and is reviewed and determined by the Directors regularly with reference to the duties, responsibility and performance of individual employees, the legal framework and the market conditions.

The emolument of the Directors will be reviewed by the Remuneration Committee of the Board regularly, such fee was determined with reference to their roles and responsibilities in the Group and the prevailing market conditions.

A share option scheme was adopted by the Company on 25 April 2002 to grant share options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the Group's operations. Details of the share option scheme are set out in note 15 to the financial statements.

### **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 7 to 9 of the annual report.

### **DIRECTORS' SERVICE CONTRACTS**

Leung Ngai Man and the Company have entered into a service contract which is automatically renewable for the successive terms of one year each commencing from 1 April 2004 but shall not be longer than three years, unless terminated by either party giving not less than three months' notice in writing to the other party.

Yeung Kit has entered into a service contract with the Company for an initial term of two years commencing from 1 January 2005, which will be renewed thereafter on terms to be mutually agreed, unless terminated by either party giving not less than one month's notice in writing to the other party.

Wong Wa Tak has entered into a service contract with the Company for an initial term of two years commencing from 15 January 2005, which will be renewed thereafter on terms to be mutually agreed, unless terminated by either party giving not less than one month's notice in writing to the other party.

Save as disclosed above, none of the Directors 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' REPORT

## 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 year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 March 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:—

### (i) Interest in shares of the Company

	Number of ordinary shares held as corporate interest	% of total issued shares
<i>Executive Director:</i>		
Leung Ngai Man	480,330,000	52.49%

*Note:* The above shares are held by Climax Park Limited, a company incorporated in the British Virgin Islands and wholly owned by Leung Ngai Man.

### (ii) Interest in options to subscribe for shares in the Company outstanding under the share option scheme of the Company adopted on 25 April 2002

Name	Capacity	Total number of underlying shares	Approximate of shareholding
Leung Ngai Man	Beneficial owner	8,000,000 (Note 1)	0.87%
Yeung Kit	Beneficial owner	8,000,000 (Note 2)	0.87%
Chan Sing Fai	Beneficial owner	800,000 (Note 3)	0.09%
Wong Wa Tak	Interest of a controlled corporation	7,000,000 (Note 4)	0.77%

*Notes:*

1. Share options carrying rights to subscribe for 8,000,000 shares were granted to Leung Ngai Man on 3 January 2005 pursuant to the share option scheme.
2. Share options carrying rights to subscribe for 1,400,000 and 6,600,000 shares were granted to Yeung Kit on 1 November 2004 and 12 January 2005 respectively pursuant to the share option scheme.
3. Share options carrying rights to subscribe for 800,000 shares were granted to Chan Sing Fai on 1 November 2004 pursuant to the share option scheme.
4. Share options carrying rights to subscribe for 7,000,000 shares were granted to Master Hill Development Ltd. on 29 November 2004 pursuant to the share option scheme. 50% of the shareholdings of Master Hill Development Ltd. was held and beneficially owned by Wong Wa Tak.

Save as disclosed above and other than certain nominee shares in subsidiaries held by certain Directors in trust for the Group, as at 31 March 2005, none of the Directors or chief executive of the Company had any interest or short positions in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the headings "Directors' and chief executive's interests and short positions in shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective spouses 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 SCHEME**

Details of the Company's share option scheme are set out in note 15 to the financial statements.

Concerning the share options granted by the Company under the share option scheme during the year, the Directors do not consider it appropriate to disclose a theoretical value of the options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the Directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to shareholders.

As at 31 March 2005, the Company had 67,600,000, share options outstanding under the share option scheme, which represented 7.39% of the Company's shares in issue as at 31 March 2005. None of the share options granted by the Company under the share option scheme had been exercised during the year.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, the following interests of 5% or more of the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Number of shares	Capacity and nature of interest	Approximate percentage of interests
Climax Park Limited	480,330,000 ordinary shares of HK\$0.01 each of the Company	Beneficial owner	52.49%
Leung Ngai Man	480,330,000 ordinary shares of HK\$0.01 each of the Company	Interest of a controlled corporation (Note 1)	52.49%
Delta Fortune Limited	500,000,000 ordinary shares of HK\$0.01 each of the Company	Person having a security interest in shares	54.64%
Cheung Wo Sin	500,000,000 ordinary shares of HK\$0.01 each of the Company	Interest of a controlled corporation (Note 2)	54.64%

### Notes:

1. These 480,330,000 shares were held and beneficially owned by Climax Park Limited, a company incorporated in the British Virgin Islands and wholly owned by Leung Ngai Man. Under the SFO, Leung Ngai Man is deemed to be interested in these 480,330,000 shares.
2. Delta Fortune Limited, a company incorporated in the British Virgin Islands and wholly owned by Cheung Wo Sin, has a security interest in these 500,000,000 shares. Under the SFO, Cheung Wo Sin is deemed to be interested in these 500,000,000 shares.

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

#### **STAFF RETIREMENT BENEFITS**

Details of staff retirement benefits are set out in note 14 to the financial statements.

#### **MANAGEMENT CONTRACTS**

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

#### **RELATED PARTY TRANSACTIONS**

No related party transactions were entered into during the year.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2005.

#### **MATERIAL ACQUISITIONS OR DISPOSALS**

There were no material acquisitions or disposals of subsidiaries or associates in the course of the financial year.

#### **SUBSEQUENT EVENT**

Details of the significant subsequent event are set out in note 30 to the financial statements.

#### **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

#### **DIRECTORS' INTEREST IN COMPETING BUSINESS**

During the year and up to the date of this report, no Director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses of which the Directors were nominated and appointed as directors to represent the interests of the Company and/or the Group.

#### **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by its Directors. Based on specific enquiry of the Directors, the Directors have complied with the required standard set out in the Model Code throughout the accounting period covered by this report.

# DIRECTORS' REPORT

## COMPLIANCE WITH THE 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 (in force prior to 1 January 2005), throughout the accounting period covered by the report, except that the independent non-executive Directors 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 Company's Annual General Meeting in accordance with the Articles.

## AUDIT COMMITTEE

The Company has an audit committee (the "Committee") which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls and comprises the three independent non-executive Directors. The financial statements of the Company for the year ended 31 March 2005 have been reviewed by the Committee before they were tabled for the Board's review and approval.

## AUDITORS

The accompanying accounts were audited by Messrs. HLB Hodgson Impey Cheng. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**Yeung Kit**

*Executive Director*

Hong Kong, 18 July 2005