

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 33 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December, 2004 are set out in the consolidated income statement on page 26 of the annual report.

At a board meeting held on 26 April 2004, the directors of the Company declared a final dividend for the year ended 31 December, 2003, of HK2 cents per share amounting to HK\$4,000,000. The final dividend was paid on 15 June, 2004 to shareholders whose names appeared in the register of members of the Company on 27 May, 2004.

The directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 22 to the financial statements.

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

DIRECTORS

The directors of the Company since its date of incorporation and up to the date of this report were:

Executive directors:

But Ching Pui (*Honorary Chairman*)

But Ka Wai (*Chairman*)

But Chai Tong (*Vice Chairman*)

Lai Wing Kuen

Chu Kin Wah

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Non-executive directors:

Leung Wai Ling

Ngai Chun Kong, Stephen

Independent non-executive directors:

Cheung Yu Yan, Tommy

Ip Shing Tong, Francis

Ku Siu Fung, Stephen

In accordance with Article 108 of the Company's Articles of Association, Messrs. Lai Wing Kuen and Ip Shing Tong, Francis retire by rotation and, Mr. Ip Shing Tong Francis, offers himself for re-election at the forthcoming annual general meeting.

Each of the executive directors has entered into a service agreement with the Company. Each of Messrs. But Ching Pui, But Ka Wai and But Chai Tong has entered into a service agreement with the Company for an initial term of three years commencing 1 June, 2003 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Each of Messrs. Lai Wing Kuen and Chu Kin Wah has entered into a service agreement with the Company for an initial term of two years commencing 1 June, 2003 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Each non-executive and independent non-executive director has entered into a service agreement with the Company for an initial term of two years commencing 1 June, 2003 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Save as disclosed above, none of the directors being 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 by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURE

At 31 December, 2004, the interests of the directors and their associates in the shares and underlying shares and debenture of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (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 Companies (the "Model Code"), were as follows:

Long positions

Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
But Ching Pui	Beneficial owner	3,000,000	1.5%
But Ka Wai	Held by controlled corporation (note 1)	60,500,000	30.3%
But Chai Tong	Held by controlled corporation (note 2)	57,000,000	28.5%
Leung Wai Ling	Beneficial owner	3,000,000	1.5%
		123,500,000	61.8%

Notes:

- (1) These shares were held by Able Success Group Limited which is wholly-owned by Mr. But Ka Wai.
- (2) These shares were held by National Chain International Limited which is wholly-owned by Mr. But Chai Tong.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December, 2004.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 23 to the financial statements.

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The following table discloses movements in the Company's share option scheme during the year:

Name	Date of grant	Exercise price per share HK cents	Exercisable period	Number of shares of the Company to be issued upon exercise of the share options		
				Granted during the year	Exercised during the year	Outstanding at 31.12.2004
<i>Category I: Employees</i>						
Employees	14.12.2004	31.6	14.12.2004 to 13.12.2007	10,000,000	–	10,000,000
<i>Category II: Others</i>						
Consultants	14.12.2004	31.6	14.12.2004 to 13.12.2007	2,000,000	–	2,000,000
Total				12,000,000	–	12,000,000

The closing price of the Company's shares on the trading day immediately before the date on which the options under the share option scheme were granted was HK32 cents.

The fair value of the options granted in the current year measured as at the date of grant on 14 December, 2004 was HK\$1,281,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- Expected life of options is 3 years;
- Expected volatility of 83% per annum (based on historical share price movement);
- Expected annual dividend yield of 5.92% per annum (based on historical dividend payments); and
- Hong Kong Exchange Fund Notes rate was 1.63% per annum.

The Black-Scholes option pricing model requires the input of highly subjective assumption, including the volatility of share price and dividend yield. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinions, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 31 December, 2004.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in the section headed "Connected Transactions" below, no contracts of significance to which the 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.

CONNECTED TRANSACTIONS

Details of discloseable connected transactions for the year are set out in note 31 to the financial statements. In the opinion of the independent non-executive directors of the Company, the transactions were carried out on normal commercial terms, in the ordinary and usual course of business of the Group, on terms that are fair and reasonable so far as the shareholders of the Company are concerned and within the relevant cap amounts as agreed by the Stock Exchange.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 53% of the total sales of the Group and the largest customer accounted for approximately 17% of the total sales of the Group.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 37% of the total purchases of the Group and the largest supplier accounted for approximately 14% of the total purchases of the Group.

At no time during the year did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the directors owns more than 5% of the Company's issued share capital, have an interest in any of the five largest customers and suppliers of the Group.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules").

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the year.

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The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December, 2004.

PRE-EMPTIVE RIGHTS

There are no provisions 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 existing shareholders.

EXPOSURE TO BORROWERS AND OTHER SPECIFIC CIRCUMSTANCES THAT REQUIRE DISCLOSURE

The Group has entered into a loan agreement which requires the controlling shareholder of the Company to maintain their controlling interest in the Company. Failure to do so may result in the loan becoming immediately due and payable. The relevant loan was granted to Wah Yuen Foods International Limited, a wholly-owned subsidiary of the Company, amounting to HK\$40 million.

As at 31 December 2004, included in trade receivables shown in the consolidated balance sheet on page 27 represents an amount of HK\$15,636,000 due from a customer, Shanghai Rocco Trading Company Limited (上海樂高貿易有限公司). The amount was unsecured, interest free and has granted credit terms up to one year.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

But Ka Wai
CHAIRMAN

Hong Kong, 28 April, 2005