

The board (the “**Board**”) of directors of the Company (the “**Directors**”) presents this report together with the audited consolidated financial statements of the Company and its subsidiaries (the “**Group**”) for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding whilst the principal activities of its subsidiaries are the operation of indoor family entertainment game centres (the “**entertainment centres**”) as well as manufacturing and selling automobile axles in the People’s Republic of China (the “**PRC**”).

CHANGE OF CHINESE NAME

The Chinese name of the Company has been changed from 「圓通科技控股有限公司」 to 「圓通控股有限公司」 pursuant to the resolutions passed by the shareholders at a special general meeting held on 20th January, 2003. The Company adopted the new Chinese name with effective from 28th January, 2003. The English name of the Company remains unchanged.

AUDITORS

PricewaterhouseCoopers resigned as auditors of the Company on 12th November, 2002. The Company appointed Grant Thornton as the new auditors of the Company pursuant to the resolutions passed by shareholders at a special general meeting held on 20th January, 2003.

FINANCIAL RESULTS

The results for the Group for the year ended 31st December, 2003, are set out in the financial statements on page 25.

PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Particulars regarding the principal subsidiaries and joint ventures of the Company and of the Group are set out in the financial statements on pages from 46 to 48.

SEGMENT INFORMATION

The segment information for the Group for the year ended 31st December, 2003 are set out in the financial statements on page 39 and page 40.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

Compared with the previous year, the Group's turnover for the year ended 31st December, 2003 increased by 12% to approximately HK\$17.27 million while gross profit decreased by 54.4% to approximately HK\$3.22 million. The turnover for sale of automobile axles increased more than twice to approximately HK\$12.59 million, representing 72.9% of the total turnover of the Group during the year under review. The increase is due to the resumption of operation since October 2002. The turnover in previous year only reflected the sales in the last quarter of that year while the turnover in the year under review reflected the sales of a whole year. The turnover for the entertainment center operations was decreased by 50% to approximately HK\$4.68 million. Even though there was significant increase in sales of automobile axles business, the gross profit on sales of automobile axles was much lower than the entertainment center operations which resulted in the decrease of total gross profit, hence the Group has recorded an unaudited loss attributable to shareholders of HK\$51.40 million for the year ended 31st December, 2003. The slight decrease in loss was mainly attributable to the success in cost saving.

(a) Game center

During the year under review, the Group operates four entertainment centers in the PRC. In February 2004, the entertainment centre in Shanghai was closed because of its unsatisfactory performance. To the best knowledge of the Company, the Company has made the necessary provisions to reflect the results arising from the closure of the entertainment centre. The outbreak of SARS in the PRC and the impairment provisions in value of assets due to the closure of the entertainment centre lead to a drop in turnover and a significant increase in loss for these operations. The Board is of the view that these operations will remain unprofitable in the foreseeable future and the Group will not commit further resources to these operations.

(b) Automobile axles

The Sino-foreign joint venture (the "**Shenyang JV**") established in the PRC, Shenyang Liao Hua Automobile Axles Company Ltd., which is indirectly owned as to 51% by the Company and primarily engaged in the business of manufacturing and selling of automobile axles in the PRC, has suspended production in 2000 and resumed its operation in October 2002. During the year under review, it achieved a turnover of about HK\$12.59 million. The loss on sales of automobile axles decreased from HK\$1.6 million to HK\$1.37 million. The improved result is due to the better utilization of assets. The Group has taken steps to utilize Shenyang JV's internal resources to advance its production lines with the aim to improve the quality of its products and making them more competitive and attractive to potential customers in the open market.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources remained strong. The Group had cash and bank balances of approximately HK\$133.62 million (include 0.7 million of pledge bank deposit) and without any loan liability. Accordingly, the gearing ratio is zero, calculated on the basis of the Group's borrowing over shareholders' fund. The cash flow position of the Group for the year ended 31st December, 2003 is set out and analyzed on page 29.

CHARGES ON GROUP ASSETS

As at 31st December, 2003, the Group had aggregate banking facilities of HK\$500,000, all of them remained unutilized. The facilities are secured by a time deposit of HK\$0.7 million. There was no other material charges on the assets of the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Almost all of the income and expenditure of the Group were denominated in Hong Kong Dollar, Renmibi and United States Dollars. In view of the stability of the exchange rates among these three currencies, the Group has not been subject to exchange rate fluctuation exposure and thus no financial instruments have been adopted for hedging purpose.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

There was no new business, material acquisitions and disposals of subsidiaries and associated companies in the financial year under review.

POST BALANCE SHEET EVENTS

The post balance sheet events for the Group for the year ended 31st December, 2003, are set out in note 28 to the financial statements on page 57.

LITIGATION

Brief details of a legal proceedings involving the Group for the year ended 31st December, 2003, are set out in note 27 to the financial statements on page 57.

HUMAN RESOURCES

The Group had a total of approximately 130 employees as at 31st December, 2003. It has been the Group's policy to ensure that the remuneration of its employees are on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group. The Company adopted a new share option scheme on 12th June, 2003 to replace the share option scheme of the Company adopted on 15th March, 1995.

RETIREMENT SCHEME

The Group's Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in note 24 to the financial statements on page 56.

PROSPECTS

As the existing businesses of the Group continued to operate at a loss, the Board has been considering to expand the Group's business in the fast-growing automobile market in the PRC and seeking investment opportunities in capital markets.

In considering and exploring the feasibility of establishing an automobile distribution network of the Group in the PRC, the Board considered that it will take a lot of time and resources to establish car dealerships network and to build up its own reputation, it is probably more efficient by acquiring an existing reputable dealership network in the PRC. In March 2004, the Group has made an investment of US\$2.75 million in an American company which holds a significant stake in a PRC Company. The PRC Company currently has 16 points of sales located in major cities in the PRC and it distributes 15 major domestic Sino-foreign car JV brands. The Board is of the view that the investment in the American company will bring significant benefits to the Group.

DIVIDEND

The Directors do not recommend the payment of final dividend for year ended 31st December, 2003 (2002: Nil), and the Company did not pay any interim dividend during the year under review.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2003 are set out in note 12 to the financial statements on page 45.

RESERVES

Movements in the reserves of the Group and the Company for the year ended 31st December, 2003 are set out in note 22 to the financial statements on page 53.

ISSUANCE OF SHARES UNDER OPEN OFFER

During the year, the Company raised net proceeds of approximately HK\$65.0 million by issuing 631,817,000 ordinary shares ("**Offer Shares**") at a price of HK\$0.106 per share on the basis of one Offer Share for every two shares held by qualifying shareholders on the record date. Sun East LLC, a substantial shareholder, had applied for 315,152,200 Offer Shares. The other qualifying shareholders had applied for a total of 101,775,949 Offer Shares. As the Open Offer was under-subscribed, the underwriter was obliged to subscribe for and/or procure subscription for the remaining 214,888,851 Offer Shares in accordance with the terms of the underwriting agreement. The Company had been notified by the underwriter that the 214,888,851 Offer Shares had been placed to four independent placees, namely Coniston Industries Limited, Hatfield Industries Limited, Mr. Zhu Guobin and Mr. Guo Jian. Coniston Industries Limited and Hatfield Industries Limited are owned by Ms. Ma Man Han and Ms. Xu Weiqun respectively. The Company intends to use the net proceeds

from the Open Offer as general working capital of the Group, where part of which may be used by the Group to acquire or invest in appropriate businesses as and when suitable opportunities arise. As at 31st December 2003, such proceeds remained unused and had been deposited in an interest-bearing, United States Dollars denominated bank account. Details of the Open Offer were set out in the Company's circular dated 13th November, 2003 and announcements dated 4th July, 2003 and 3rd December, 2003.

SHARE CAPITAL

The details of issued share capital of the Company for the year ended 31st December, 2003 are set out in note 20 to the financial statements on page 51.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities are set out in note 23(d) to the financial statements on page 55.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the financial statements on page 58.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st December, 2003 are disclosed in Note 19 to the financial statements. These transactions also constitute continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and are required to be disclosed in accordance with Rule 14.25 of the Listing Rules. Brief details of such transactions are as follows:

Transactions between Shenyang Liao Hua Automobile Axles Company Limited (瀋陽遼華汽車車橋有限公司) ("**Shenyang JV**") and 中車集團瀋陽七四零七工廠 (formerly known as 瀋陽輕型汽車車橋製造廠) ("**7407 Holding**") ("**Transactions**"):

- (a) the purchase of rear differential axle, driving and driven gears, rear brake assembly, bearings, rear braking drums ("**Components**") for the manufacture and assembling of automobile axles and related automobile components from 7407 Holding. The aggregate amount of purchase amounted to about RMB13,227,000 (equivalent to about HK\$12,367,000) for the year ended 31st December, 2003; and
- (b) the sale of finished/assembled products to 7407 Holding. The aggregate amount of sales amounted to about RMB13,460,000 (equivalent to about HK\$12,585,000) for the year ended 31st December, 2003.

Shenyang JV is a 51% indirectly owned subsidiary of the Company and 7407 Holding is the holding company of Shenyang Song Liao Jin Hua Automobile Axles Manufactory Limited (瀋陽松遼金華車橋有限公司) ("**PRC JV Partner**"), the 49% joint venture partner of Shenyang JV. By virtue of its interests in Shenyang JV, the PRC JV Partner and hence 7407 Holding are connected parties to the Company and the Transactions constitute connected transactions of the Company under the Listing Rules.

Reasons of the Transactions

The operation of Shenyang JV was suspended in or around June 2000 and was only able to revive its operation in October 2002 with the assistance of 7407 Holding by (a) referring business to the Group without any monetary consideration, (b) sale to the Group the requisite Components for the manufacture and assembling of automobile axles and related automobile components, and (c) purchase from the Group finished/assembled products.

The Directors consider that, by entering into the Transactions, the Group is able to stabilise the costs of production of Shenyang JV, enhance administrative and operational efficiency in the automobile assembly industry. The Transactions also enable the Group to minimize credit control risk which Shenyang JV may face at the start-up period, broaden its income base and bring a better return on the shareholders' investment in the Company.

The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") has granted a conditional waiver to the Company for compliance with the disclosure requirements as stipulated under Rule 14.25 of the Listing Rules in respect of the Transactions on each occasion they arise for the period up to 31st December, 2005 ("**Waiver**"). In accordance with the conditions of the Waiver, the Directors (including independent non-executive directors) have reviewed the Transactions and confirm that:

- (a) the Transactions were entered into by the Group in the ordinary and usual course of its business; conducted on normal commercial terms or (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and entered into either in accordance with the terms of the agreement(s) governing the Transactions or, where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (b) that the aggregate amount of each of the categories of the Transactions for the year ended 31st December, 2003 does not exceed the relevant cap amount (being RMB21.6 million (equivalent to about HK\$20.2 million) for the purchase transactions and RMB22.5 million (equivalent to about HK\$21 million) for the sale transactions).

The auditors of the Company have also reviewed the Transactions and confirmed to the Directors in writing that:

- (a) the Transactions have been approved by the Board;
- (b) the Transactions have been entered into in accordance with the terms of the relevant agreements relating to the Transactions or the Transactions were on terms no less favourable than those available to or, as the case may be, from independent third parties;

- (c) the Transactions are consistent with the pricing policies of the Group; and
- (d) the aggregate amount of each of the categories of the Transactions does not exceed the relevant cap amount.

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2003 and up to the date of this report are:–

Executive directors:

Mr. Yung Yeung (*Chairman*)

Mr. Chunhua Huang (*Deputy Chairman and Chief Financial Officer*)

Mr. Jun Li (*Chief Executive Officer and Company Secretary*)

Mr. Yuwen Sun	(appointed on 30th April, 2003)
Mrs. Chizuko Kubo	(appointed on 5th August, 2003)
Mr. Brett David Braude	(resigned on 10th January, 2003)
Mr. Mark Alan Loynd	(resigned on 10th January, 2003)
Mr. Peter Mills	(resigned on 10th January, 2003)
Mr. Jonathan Edward Spencer Rostron	(resigned on 20th January, 2003)
Ms. Wing Kee Wong	(resigned on 10th January, 2003)
Mr. Damien Aquinas Laracy	(resigned on 20th January, 2003)

Independent non-executive directors:

Mr. Jian Wang	(appointed on 11th April, 2003)
Mr. Bangjie He	(appointed on 11th April, 2003)
Mr. Min Li Yi	(resigned on 11th April, 2003)
Madam Chu Qing Yao	(resigned on 11th April, 2003)

Mr. Jun Li will retire by rotation in accordance with sub-clauses 87(1) and (2) of the bye-laws of the Company and Mrs. Chizuko Kubo, being a Director appointed by the Board pursuant to clause 86(2) of the Bye-laws (“**Bye-laws**”), will retire at the forthcoming annual general meeting of the Company and both, being eligible, will offer themselves for re-election.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December, 2003, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("**SFO**") and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons had an interest or short position in the shares and underlying shares of the Company ("**Shares**") which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	<i>Note</i>	Number of Shares	Percentage
Sun East LLC	1	945,456,600	49.88%
Pure Shine Limited (" PSL ")		162,951,000	8.60%
Brilliance China Automotive Holdings Limited (" BCA ")	2	162,951,000	8.60%

Notes:

1. Sun East LLC is a company owned as to 35% by Mr Yung Yeung and 65% by Mr Chunhua Huang and Mr Yuwen Sun as trustees for certain trusts established for the benefit of the children of Mr Yung Yeung. According to the Company's records, the 630,304,400 Shares presently held by Sun East LLC were previously registered in the name of Daiweldo Group Limited ("DGL") which is a wholly owned subsidiary of Daiweldo Foundation Limited ("DFL"). DFL was, in turn, owned as to 80% by Mr. Yung Yeung and 5% by each of the four other individuals who are former directors of the Company. On 22nd May, 2003, DGL transferred the 630,304,400 shares to Sun East LLC. In December 2003, Sun East LLC has applied for 315,152,200 offer shares under the Open Offer.
2. PSL is a wholly-owned subsidiary of BCA. By virtue of BCA's interest in PSL, BCA is deemed to be interested in the Shares held by PSL.

Save as disclosed above, no person, other than the Directors, whose interests are set out in the section "Directors' Interests and Short Positions" below, had registered an interest or short positions in the share capital or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 31st December, 2003, the interests and short positions of the directors, chief executive of the Company in the share capital of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO were as follows:

Name of Director	Company/name of associated corporation	Capacity and nature of Interest	Number of ordinary shares, underlying shares and debenture
Yung Yeung	Company	Beneficial owner and corporate interest <i>(Note 1)</i>	945,456,600
Yung Yeung	Company	Beneficial owner and personal interest <i>(Note 3)</i>	31,570,000
Jun Li	Company	Beneficial owner and personal interest <i>(Note 3)</i>	5,400,000
Chunhua Huang	Company	Beneficial owner and personal interest <i>(Note 3)</i>	5,400,000
Chunhua Huang	Company	Trustee and corporate interest <i>(Note 2)</i>	945,456,600
Yuwen Sun	Company	Trustee and corporate interest <i>(Note 2)</i>	945,456,600

Notes:

- All these interests represent long positions. These 945,456,600 Shares (representing 49.88% of the issued share capital of the Company as at 31st December, 2003) are beneficially owned by Sun East LLC, a company which is held as to 35% by Mr Yung Yeung and as to 65% by Mr Chunhua Huang and Mr Yuwen Sun as trustees for certain trusts established for the benefit of the children of Mr Yung Yeung. Mr Yung Yeung is deemed to be interested in the 945,456,600 Shares by virtue of his interest in Sun East LLC.
- All these interests represent long positions. These 945,456,600 Shares (representing 49.88% of the issued share capital of the Company as at 31st December, 2003) are beneficially owned by Sun East LLC, a company which is held as to 35% by Mr Yung Yeung and as to 65% by Mr Chunhua Huang and Mr Yuwen Sun as trustees for certain trusts established for the benefit to the children of Mr Yung Yeung. Mr Chunhua Huang and Mr Yuwen Sun are deemed to be interested in the 945,456,600 Shares by virtue of their interest in Sun East LLC.
- Such number of Shares represents the underlying shares of the options granted under the 1995 Scheme, which was terminated pursuant to a resolution of the shareholders of the Company passed on 12th June, 2003 and replaced by the 2003 Scheme (as described in the section headed "Share Option Schemes" herein).

In addition to the above, Mr. Jun Li has 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 in this report, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as at 31st December, 2003.

DIRECTORS' RIGHTS TO SUBSCRIBE FOR SHARES

Save as disclosed under the section headed "Directors' Interests and Short Positions" above, and the section headed "Share Option Schemes" below, at no time during the year ended 31st December, 2003 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director 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 arrangements to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

As at 31st December, 2003, details of share options granted to Directors or employees of the Company under the 1995 Scheme and the 2003 Scheme (both as hereinafter defined) are as follows:

Grantee	Date of grant	Exercise period	Exercise price per share HK\$	Shares being subject of the outstanding options
Directors				
Mr Yung Yeung	16th February, 2000	16th February, 2000 to 15th February, 2010	0.69	10,000,000
	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382	21,570,000
Mr Jun Li	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382	5,400,000
Mr Chunhua Huang	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382	5,400,000
				42,370,000
Other employees (in aggregate)	16th February, 2000	16th February, 2000 to 15th February, 2010	0.69	4,800,000
	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382	9,400,000
				14,200,000
				56,570,000

Notes:

- (i) The share option scheme of the Company adopted on 15th March, 1995 (the “**1995 scheme**”) was terminated on 12th June, 2003 and a new share option scheme was adopted on 12th June, 2003 (the “**2003 scheme**”). During the year ended 31st December, 2003, no options to subscribe for ordinary shares in the Company were granted under the 1995 Scheme and 2003 Scheme.
- (ii) No share option was exercised or cancelled during the year ended 31st December, 2003.
- (iii) Save as described above, as at 31st December, 2003, none of the Directors or their spouses or children under 18 years of age were granted or exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations.
- (iv) Brief information on the 1995 Scheme and the 2003 Scheme are as follows:

	The 2003 Scheme	The 1995 Scheme
1) Purpose of the share option scheme	As incentives and rewards to eligible participants for their contribution to the Group and assist the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group	Provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations
2) Participants of the share option scheme	a) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries, or any entity (the “ Invested Entity ”) in which any member of the Group holds any equity interest;	Eligible employees including executive directors and employees of the Company and its wholly-owned subsidiaries

- b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- c) any supplier of goods or services to any member of the Group or any Invested Entity;
- d) any customer of the Group or any Invested Entity;
- e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- f) any shareholder of any member of the Group other than the Company or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- g) any advisor (professional or otherwise) or consultant to the Group relating to business development of the Group or any member of the Group or any Invested Entity; and

	h)	any joint venture partner or business alliance that co-operates with any member of the Group or any Invested Entity in any area of business operation or development.	
3)	Total number of shares available for issue under the share option schemes and percentage on issued share capital as at 31st December, 2003	126,363,400, being 6.67% on issued share capital as at 31st December 2003	N/A
4)	Maximum entitlement of each participant under the share option scheme	In any 12-month period, shall not exceed 1% of the shares in issue	Shall not exceed 25% of the maximum aggregate number of shares in the capital of the Company at the time of grant or such other percentage as the Board may determine from time to time
5)	The period within which the shares must be taken up under an option	The Board may in its absolute discretion determine save that such period shall not expire later than 10 years from the date of grant	10 years from the date of grant
6)	The minimum period for which an option must be held before it can be exercised	Unless otherwise determined by the Board, no minimum period	Can be exercised at any time after grant and acceptance
7)	The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	Upon acceptance of the option, the grantee shall inform the Company together with the payment of HK\$1 by way of consideration for the grant within 21 days from the date of offer	Upon acceptance of the option, the grantee shall inform the Company together with the payment of HK\$1 by way of consideration for the grant within 28 days from the date of offer

8) The basis of determining the exercise price	The exercise price is determined by the Board and being not less than the higher of:	The exercise price shall not less than the greater of:
	a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; or	a) 80% of the average closing price of the shares of the Company on the Stock Exchange on the 5 trading days immediately preceding the date of offer of such option; or
	b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares for the 5 business days immediately preceding the date of offer for grant which must be a business day; or	b) such amount as the Board may from time to time determine subject to the Listing Rules applicable for the time being; or
	c) the nominal value thereof	c) nominal amount of the share
9) The remaining life of the share option scheme	The scheme remains in force until 12th June, 2013	The scheme was terminated on 12th June, 2003

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or associated companies was a party and in which any 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.

DIRECTORS' SERVICE CONTRACTS

The Company entered into a service contract with Mr. Jun Li, a Director, for his office of chief executive officer for a period of one year commencing from 1st August, 2000 (the "**Service Contract**"). The Service Contract shall continue thereafter until terminated by either party by giving the other party one month's written notice.

On 8th January, 2002, the term of the Service Contract was amended and his term of employment was extended to 31st December, 2004 and will thereafter be automatically extended unless further notice by either party to terminate the Service Contract. Unless certain conditions materialized, neither Mr. Jun Li could resign nor the Company could dismiss him before 31st December, 2004. Should the Company dismiss Mr. Jun Li otherwise than in accordance with the terms of the Service Contract, the Company would pay him an amount equivalent to the salary of the unserved period of the Service Contract.

Save as disclosed above, none of the Directors 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 employer within one year without payment of compensation, other than statutory compensation.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the Group's turnover attributable to the five largest customers for the year are as follows:–

Turnover

The largest customer	73%
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Excluding the largest customer, the other four largest customers are from the retail sector and the sales contributed by them are insignificant to the Group's turnover.

The percentage of the Group's purchases attributable to the major suppliers for the year are as follows:–

Purchases

The largest supplier	96%
The five largest suppliers in aggregate	98%

As far as the Directors are aware, no directors of the Company or any of its subsidiaries, their associates or any shareholders of the Company (who to the Directors' knowledge is interested in or owns more than 5 per cent. of the Company's share capital) has any shareholding in the suppliers or customers referred to above.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws of Bermuda.

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code"), except that the independent non-executive Directors were not appointed for specific terms but appointed to their offices for such terms and subject to retirement in accordance with clause 87 of the Bye-laws.

In compliance with the Code, the Company has established an audit committee and has adopted the terms of reference set out in "A guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants in December 1997.

PROPOSAL FOR AMENDMENT OF BYE-LAWS OF THE COMPANY

The Directors propose to amend the Bye-laws in order to align the Bye-laws with the revised provisions of Appendix 3 of the Listing Rules which have become effective since 31st March, 2004. Special resolutions regarding the amendment of Bye-laws will be proposed at the forthcoming Annual General Meeting.

An notice of Annual General Meeting and a circular containing, inter alia, further information on the proposed amendments of the Bye-laws will be dispatched to the shareholders of the Company as soon as practicable.

AUDITORS

The financial statements have been audited by Grant Thornton who will retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted at the Annual General Meeting to re-appoint Grant Thornton as auditors of the Company.

On behalf of the Board

Jun Li

Director

28th April, 2004