

Directors' Report

The directors present their annual report together with the audited financial statements of the Group for the year ended 31st March 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 28 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 15.

The directors do not recommend the payment of a dividend for the year ended 31st March 2004.

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 20 to the financial statements.

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.

DIRECTORS

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

Executive directors

David AN (*Chairman*)

FENG Ya Lei

ZHOU Nan Zheng

KWAN Po Wan

Independent non-executive directors

LI Wai Keung

LIU Jian

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In accordance with Article 116 of the Company's Articles of Association, Ms. Feng Ya Lei and Mr. Zhou Nan Zheng will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Articles of Association.

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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March 2004, the interests and short positions of directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been 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, or which were recorded in the register required to be kept 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 (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. David An	Held by controlled corporation (<i>Note</i>)	<u>609,773,980</u>	<u>61.59%</u>

Note: The 609,773,980 ordinary shares are owned by Extreme Wise Investments Limited, a company which is wholly-owned by Mr. David An. By virtue of the SFO, Mr. David An is taken to be interested in these 609,773,980 ordinary shares.

Save as disclosed above, as at 31st March 2004, none of the directors or any of their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant

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to Divisions 7 and 8 of Part XV of 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, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme detailed in note 20 to the financial statements, at no time during the year was the Company, its holding company or any of its fellow subsidiaries or 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 debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st March 2004, shareholders (other than directors of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Extreme Wise Investments Limited	Beneficial owner	<u>609,773,980</u>	<u>61.59%</u>

Save as disclosed above, as at 31st March 2004, the Company has not been notified by any persons (other than directors of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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CONNECTED TRANSACTIONS

Details of the disclosable connected transactions for the year are set out in note 27 to the financial statements. In the opinion of the independent non-executive directors, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group (except for the transactions carried out under the licence agreement as detailed in note 27 to the financial statements);
- (ii) either (a) on normal commercial terms; or (b) where there is no available comparison, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) either (a) in accordance with the terms of the agreements; or (b) where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (iv) within the relevant cap amounts as agreed by the Stock Exchange.

Save as disclosed above, there were no other transactions which are required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the heading "Connected Transactions", there were no contracts of significance to which the Company, its holding company or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisting at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 49% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 36% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 87% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 54% of the Group's total purchases.

At 31st March 2004, one of the Group's five largest suppliers, Lee & Man Industries Company Limited, is a wholly-owned subsidiary of Lee & Man Paper Manufacturing Limited which is owned as to approximately 67.87% by Gold Best Holdings Ltd., a company wholly owned by a trustee known as Newcourt Trustees Limited of the trust of which Mr. Lee Wan Keung, a director of Capital Nation

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Investments Limited, is a discretionary object. That same trustee is also the ultimate holding company of Good Partner Trading Limited (“Good Partner”), a shareholder of a subsidiary of the Company. All transactions between the Group and Lee & Man Industries Company Limited were carried out on normal commercial terms.

Save as disclosed above, none of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers or suppliers of the Group.

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

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31st March 2004, in compliance with the Code of Best Practice (the “Code”) as set out in the Listing Rules by the Stock Exchange except that the existing non-executive directors of the Company were not appointed for a specific term as required by paragraph 7 of the Code but are subject to retirement by rotation in accordance with the Company's Articles of Association.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation on 26th February 1993. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board

David An
Chairman

Hong Kong, 14th June 2004