

Directors' Report

The directors present their annual report and the audited financial statements of the Group for the year ended 30 June 2004.

REORGANISATION AND LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company was incorporated in the Cayman Islands on 22 April 2003 as an exempted company with limited liability. Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 15 August 2003. The shares of the Company have been listed on the Stock Exchange since 10 September 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 14 to the financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 30 June 2004 are set out in the consolidated income statement on page 20. An interim dividend of HK1.0 cent per share amounting to HK\$8,750,000 has been paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK1.5 cents per share to the shareholders whose names appear on the register of members on 24 November 2004, amounting to approximately HK\$13,148,000, and the retention of the remaining profit for the year.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 21 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

In the Company's prospectus dated 28 August 2003, the Company included a valuation of its leasehold land and buildings and certain construction in progress relating to the construction of buildings at HK\$46,300,000, which valuation has not been incorporated in the financial statements for the year ended 30 June 2004. These properties have been included in the balance sheet at 30 June 2004 at HK\$40,419,000, being their historical cost less accumulated depreciation and amortisation. Had the properties been stated at their revalued amount in the financial statements, additional depreciation and amortisation of HK\$440,000 would have been charged against the income statement.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Mr. Chen Dong
Mr. Chen Jinyan
Mr. Chen Qinzhi
Ms. Kong Ping (appointed on 21 July 2003)

Independent non-executive directors:

Mr. Huang Yongfeng
Mr. Yu Zhong Ming (appointed on 1 September 2004)
Mr. Lo Kin Chung (appointed on 1 September 2004)
Mr. Tong Lap Hong (resigned on 1 September 2004)

In accordance with article 87 of the articles of association of the Company, Mr. Chen Qinzhi and Mr. Huang Yongfeng retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Messrs. Chen Jinyan and Chen Qinzhi entered into service contracts with the Company for a term of three years whilst Messrs. Chen Dong and Kong Ping have service contracts for a term of one year. All the above service contracts commenced from 1 September 2003 and will continue thereafter until terminated by either party by three months' prior written notice. The service contracts of Messrs. Chen Dong and Kong Ping expired on 31 August 2004 and they were re-appointed by the Board on 1 September 2004 to continue to act as the executive directors of the Company for a term of one year.

Other than 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 which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Each of the independent non-executive directors is appointed for an initial term of one year and either the Company or the independent non-executive director may terminate the appointment by giving the other a prior notice of two months in writing before its expiration. Mr. Tong Lap Hong resigned as independent non-executive director of the Company on 1 September 2004 and his service agreement was terminated simultaneously.

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2004, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) Ordinary shares of HK1.0 cent each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Approximate shareholding percentage
Mr. Chen Dong	Held by controlled corporation (<i>note</i>)	581,910,000	66.39%

Note: The shares are held by Talent Crown Investment Limited ("Talent Crown"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Chen Dong. Mr. Chen Dong is the younger brother of Mr. Chen Jinyan and the son of Mr. Chen Qinzhi and all of them are the executive directors of the Company.

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Chen Jinyan	Beneficial owner	4,000,000	4,000,000
Mr. Chen Qinzhi	Beneficial owner	4,000,000	4,000,000
		8,000,000	8,000,000

Other than disclosed above, none of the directors nor their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 30 June 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed under the section headed "Share options", 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 by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in securities" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares of HK1.0 cent each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate shareholding percentage
Mr. Cheah Cheng Hye ("Mr. Cheah")	Held by controlled corporation (<i>note</i>)	47,740,000	5.45%

Note: The shares are held by Value Partners Limited, a company in which Mr. Cheah has a controlling beneficial interest. Mr. Cheah is therefore deemed to have an interest in 47,740,000 shares in the Company.

Other than disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2004.

Directors' Report

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 22 to the financial statement.

The following table disclosed movements in the Company's share options during the year:

Directors	Date of grant	Exercise period	Exercise price HK\$	Outstanding at 1.7.2003	Granted during the year	Exercised during the year	Outstanding at 30.6.2004
Mr. Chen Jinyan	23.12.2003	23.12.2003 to 22.12.2013	0.612	–	4,000,000	–	4,000,000
Mr. Chen Qinzhi	23.12.2003	23.12.2003 to 22.12.2013	0.612	–	4,000,000	–	4,000,000
Total for Directors				<u>–</u>	<u>8,000,000</u>	<u>–</u>	<u>8,000,000</u>
Employees	23.12.2003	23.12.2003 to 22.12.2013	0.612	<u>–</u>	<u>35,750,000</u>	<u>(1,500,000)</u>	<u>34,250,000</u>
Granted Total				<u>–</u>	<u>43,750,000</u>	<u>(1,500,000)</u>	<u>42,250,000</u>

The closing price of the Company's shares immediately before 23 December 2003, the date of the relevant grant, was HK\$0.62.

SHARE OPTIONS (Continued)

The fair value of the options granted in the current year totalled approximately HK\$16,600,000. The following significant assumptions were used to derive the fair value, using the Black Scholes option pricing model:

1. an expected volatility of 18.8% based on historical volatility;
2. no annual dividend;
3. the estimated expected life of the options granted during the year is 9.5 years; and
4. risk-free interest rate of 4.59% based on the Hong Kong Exchange Fund Notes interest rates at the dates the options were granted.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 82% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 25% of the Group's total purchase.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

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

The Company was listed on 10 September 2003 and up to 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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.

AUDIT COMMITTEE

Pursuant to the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company set up an audit committee (the "Committee") on 16 August 2003. The Committee was established with written terms of reference and has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Committee now comprises three members, all being independent non-executive directors of the Company. The Group's audited financial statements, including the supplementary consolidated financial information, for the year, have been reviewed by the Committee.

CORPORATE GOVERNANCE

The Company has complied in the period between its listing date and 30 June 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

During the year, Messrs. Ernst & Young, who acted as auditors of the Company for the year ended 30 June 2003, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Chen Jinyan
CHAIRMAN
Hong Kong
12 October 2004