

**DIRECTORS' REPORT**

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

**PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 25 to the financial statements.

**RESULTS**

The results of the Group for the year ended 30th June, 2004 are set out in the consolidated income statement on page 19.

The directors do not recommend the payment of a dividend.

**MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 30th June, 2004, the five largest customers of the Group together accounted for approximately 79% of the Group's turnover and the aggregate purchases attributable to the Group's five largest suppliers were 100%. The largest customer accounted for approximately 63% of the Group's turnover and the largest supplier accounted for approximately 60% of the Group's purchases.

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 share capital) have an interest in any of the Group's five largest suppliers or customers.

**PROPERTY, PLANT AND EQUIPMENT**

Details of the movements during the year in property, plant and equipment of the Group are set out in note 10 to the financial statements.

**SHARE CAPITAL**

Details of the movements during the year in share capital of the Company are set out in note 17 to the financial statements.

**DIRECTORS' REPORT****DIRECTORS**

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

**Executive directors**

Ms. Zhou Liping (*Chairman*)

Ms. Guan Mei (*Deputy Chairman*)

Mr. Huang Flynn Xuxian

Mr. Cheng Dongsheng

Mr. Sun Darui

(appointed on 26th April, 2004)

(appointed on 26th March, 2004)

(resigned on 26th April, 2004)

(resigned on 26th April, 2004)

**Independent non-executive directors**

Mr. Shea Chun Lok, Quadrant

Mr. Chan Yiu Kwong

Mr. Ngai Chi Yung

Mr. Tsang Link Carl, Brian

(appointed on 10th June, 2004)

(appointed on 10th June, 2004)

(resigned on 10th June, 2004)

In accordance with Clauses 91 and 99(B) of the Company's bye-laws, Ms. Zhou Liping and Mr. Shea Chun Lok, Quadrant will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the above clause.

**DIRECTORS' REPORT****DIRECTORS' INTERESTS IN SHARES**

At 30th June, 2004, the interests of the directors and their associates in the 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

**Long positions**

Ms. Guan Mei was interested in 185,000,000 shares of the Company, representing approximately 16.66% of the issued share capital of the Company as at 30th June, 2004. These shares were held by Aster Well Limited, a company incorporated in the British Virgin Islands and is beneficially owned by Ms. Guan Mei.

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 30th June, 2004.

**SHARE OPTIONS**

Particulars of the Company's share option scheme are set out in note 23 to the financial statements. No share option had been granted to the Company's directors during the year.

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

At no time during the year was the Company or its subsidiaries, a party to any arrangement 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.

**DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance, to which the Company or 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.

**DIRECTORS' REPORT****SUBSTANTIAL SHAREHOLDERS**

At 30th June, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

**Long positions**

<b>Name</b>	<b>Number of shares</b>	<b>Approximate percentage of issued share held</b>
Pioneer Wealth Limited ( <i>Note 1</i> )	269,545,000	24.27%
Aster Well Limited ( <i>Note 2</i> )	185,000,000	16.66%

*Note 1:* The entire share capital of Pioneer Wealth Limited is beneficially owned by Ms. Deng Hong.

*Note 2:* The entire share capital of Aster Well Limited is beneficially owned by Ms. Guan Mei.

Other than as 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 30th June, 2004.

**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 are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

**CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 30th June, 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation at annual general meeting.

**DIRECTORS' REPORT****AUDITORS**

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

On behalf of the Board

**Zhou Liping**

*CHAIRMAN*

Hong Kong, 19th October, 2004