

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 principal subsidiaries and associate are set out in notes 16 and 17 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 18 of the annual report.

The Company do not recommend the payment of a dividend during the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 60 of the annual report.

SHARE CAPITAL AND CONVERTIBLE NOTES

During the year, the Company issued and allotted 600,000,000 and 1,400,000,000 shares of HK\$0.01 each at HK\$0.016 and HK\$0.018 each respectively. The Company also issued a convertible note of HK\$69,000,000 for the acquisition of 70% interest in Ming Yuen Assets Limited.

As a result of the exercise of share options, the Company further issued and allotted a total number of 541,000,000 shares of HK\$0.01 each at exercise price from HK\$0.0127 to HK\$0.0386 per share, details of which are set out in note 22.

Details of these and other movements in the share capital and convertible notes of the Company during the year are set out in notes 21 and 24 to the financial statements, respectively.

PROPERTY, PLANT AND EQUIPMENT

During the year, property, plant and equipment with an aggregate net book value of approximately HK\$680,000 were disposed of as a result of the disposal of certain subsidiaries.

Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

Directors' Report (continued)

INVESTMENT PROPERTIES

All the investment properties were disposed of during the year. Details of the movements in investment properties are set out in note 13 to the financial statements.

SUBSIDIARIES AND ASSOCIATE

During the year, the Group disposed of its entire 100% interest in Cheung On Consultants Limited, Cosmos Wealth Investment Limited, Special Gold Assets Limited, High Stone Assets Limited and Rich City Investments Limited. The Group also disposed of its entire 20% and 15% interest in Conolan Holdings Limited and Cross Asia Railway Express Limited, respectively.

DIRECTORS

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

Executive directors:

Wong Kam Fu (*Chairman*)

Wong Hoi Keung (*Managing Director*)

Lew Mon Hung

Song Xiao Hai

(appointed on 15th March, 2004)

Wong Hong Loong

(appointed on 24th June, 2004)

Wang Zhao Bin

(resigned on 6th July, 2004)

Independent non-executive directors:

Ha Ping

Lau Mun Chiu

(resigned on 30th October, 2003)

Cheng Kong Ming

(appointed on 30th October, 2003, resigned on 24th June, 2004
and appointed on 30th September, 2004)

Wong Che Man, Eddy

(appointed on 24th June, 2004)

In accordance with clause 99 of the Company's Bye-laws, Messrs. Lew Mon Hung and Ha Ping will retire and, being eligible, offer themselves for re-election.

In accordance with clause 102 of the Company's Bye-laws, Messrs. Song Xiao Hai, Wong Hong Loong, Wong Che Man, Eddy and Cheng Kong Ming will retire and, being eligible, offer themselves for re-election.

Directors' Report (continued)

DIRECTORS (continued)

The term of office of each independent non-executive director is the period from the date of appointment up to his retirement by rotation as required by the Company's Bye-laws.

No director being proposed for re-election at the forthcoming annual general meeting has any 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30th June, 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS

At 30th June, 2004, the interests and short positions of the directors and their associates in the shares, underlying shares and convertible notes 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, 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 in shares, share options and convertible notes of the Company

(a) *Ordinary shares of HK\$0.01 each*

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Wong Kam Fu	Held by controlled corporations <i>(Note 1)</i>	2,847,266,543	27.70%
	Beneficial owner	29,000,000	0.28%
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		2,876,266,543	27.98%
Lew Mon Hung	Beneficial owner	10,000,000	0.10%
Wong Hoi Keung	Beneficial owner	145,000,000	1.41%
Wong Hong Loong	Beneficial owner	26,000,000	0.25%
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		<u>3,057,266,543</u>	<u>29.74%</u>

Directors' Report (continued)

DIRECTORS' INTERESTS (continued)

(b) *Share options*

Name of director	Capacity	Number of options held	Number of shares underlying
Wong Kam Fu	Beneficial owner	100,000,000	100,000,000

(c) *Convertible notes*

Name of director	Capacity	Amount of notes	Number of shares underlying
Wong Kam Fu	Held by a controlled corporation <i>(Note 2)</i>	HK\$15,900,000	198,750,000

Notes:

- 2,183,516,543 shares were beneficially owned by Sheung Hai Developments Limited ("Sheung Hai") and 663,750,000 shares were beneficially owned by Alpha Logistics Group Limited ("Alpha Logistics"). The entire share capital of both companies is beneficially owned by Wong Kam Fu.
- Convertible note of HK\$15,900,000 were beneficially owned by Alpha Logistics.

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

Directors' Report (continued)

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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

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

Name of director/ former director*	Exercisable period	Exercise price	Number of share options				Outstanding at 30.6.2004
			Outstanding at 1.7.2003	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	
		HK\$			(Note 4)		
Wong Kam Fu	2.8.2001 – 1.8.2004	0.4	3,018,750	-	-	(3,018,750)	-
	30.10.2002 – 29.10.2004	0.0386	100,000,000	-	-	-	100,000,000
Wong Hoi Keung	30.10.2002 – 29.10.2004	0.0386	100,000,000	-	(100,000,000)	-	-
	7.5.2003 – 6.5.2005	0.0135	22,000,000	-	(22,000,000)	-	-
	14.7.2003 – 13.7.2005 (Note 1)	0.0156	-	30,000,000	(30,000,000)	-	-
Wang Zhao Bin*	30.10.2002 – 29.10.2004	0.0386	52,000,000	-	(52,000,000)	-	-
	2.11.2002 – 1.11.2004	0.0366	30,000,000	-	(30,000,000)	-	-
Lew Mon Hung	30.10.2002 – 29.10.2004	0.0386	10,000,000	-	(10,000,000)	-	-
Wong Hong Loong	25.2.2004 – 24.2.2006 (Note 3)	0.0168	-	26,000,000	(26,000,000)	-	-
Total for directors			317,018,750	56,000,000	(270,000,000)	(3,018,750)	100,000,000
Employees	18.11.2001 – 17.11.2003	0.4	2,500,000	-	-	(2,500,000)	-
	2.8.2001 – 1.8.2004	0.4	256,250	-	-	-	256,250
	1.9.2001 – 31.8.2004	0.4	100,000	-	-	-	100,000
	30.10.2002 – 29.10.2004	0.0386	13,500,000	-	(13,500,000)	-	-
	7.5.2003 – 6.5.2005	0.0135	11,800,000	-	(11,800,000)	-	-
	14.7.2003 – 13.7.2005 (Note 1)	0.0156	-	73,000,000	(73,000,000)	-	-
	28.11.2003 – 27.11.2005 (Note 2)	0.0127	-	124,000,000	(123,700,000)	-	300,000
	25.2.2004 – 24.2.2006 (Note 3)	0.0168	-	49,000,000	(49,000,000)	-	-
Total for employees			28,156,250	246,000,000	(271,000,000)	(2,500,000)	656,250
Total for the Scheme			345,175,000	302,000,000	(541,000,000)	(5,518,750)	100,656,250

Directors' Report (continued)

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURE (continued)

Notes:

1. As at 13th July, 2003, the date before 103,000,000 options with an exercise price of HK\$0.0156 were granted, the closing price per share of the Company was HK\$0.019.
2. As at 27th November, 2003, the date before 124,000,000 options with an exercise price of HK\$0.0127 were granted, the closing price per share of the Company was HK\$0.016.
3. As at 24th February, 2004, the date before 75,000,000 options with an exercise price of HK\$0.0168 were granted, the closing price per share of the Company was HK\$0.021.
4. The weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were exercised was HK\$0.041.

Valuation of Share Options

Since the application of the Black-Scholes Option Price Model and the Binomial Model is based on a number of variables that are either theoretical, speculative or difficult to be ascertained, the directors of the Company believe that the valuation of the options calculated on such basis would not be meaningful to existing or potential shareholders. Accordingly, the fair value of share options is not disclosed in the annual report.

No charge is recognised in the income statement in respect of the value of options granted in the period.

CONNECTED TRANSACTION

During the year, the Company entered into the subscription agreement with Ming Yuen Assets Limited ("Ming Yuen") on 6th April, 2004 whereby the Company agreed to acquire the remaining 70% interest in Ming Yuen from Mr. Wong Kam Fu ("Mr. Wong"), who is the chairman and the substantial shareholder of the Company for a consideration of HK\$83,000,000 payable by the issue of a convertible note of HK\$69,000,000 and by the Company assuming the debt of HK\$14,000,000 owing to Ming Yuen by Mr. Wong. The convertible note bears interests at 2% per annum and matures on 11th June, 2007.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report (continued)

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Long positions in shares of the Company

(a) Ordinary shares of HK\$0.01 each

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Wong Kam Fu	Beneficial owner	29,000,000	0.28%
	Held by controlled corporations (Note 1)	2,847,266,543	27.70%
		<u>2,876,266,543</u>	<u>27.98%</u>
Lam Ching Kui	Beneficial owner	787,688,000	7.66%
	Held by controlled corporations (Note 2)	254,288,000	2.47%
		<u>1,041,976,000</u>	<u>10.13%</u>
		<u><u>3,918,242,543</u></u>	<u><u>38.11%</u></u>

Notes:

- (1) 2,183,516,543 and 663,750,000 shares were beneficially owned by Sheung Hai and Alpha Logistics respectively. The entire share capital of both companies is beneficially held by Mr. Wong.
- (2) 254,288,000 shares were beneficially owned by Chinese Success Limited. The entire share capital of the Company is beneficially held by Lam Ching Kui.

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.

DONATION

During the year, the Group made charitable and other donation totalling HK\$59,000.

Directors' Report (continued)

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30th June, 2004, the five largest customers accounted for less than 30% of the Group's turnover, while the largest and five largest suppliers accounted for 35% and 64% of the Group's purchases, respectively.

At no time during the year, none of the directors, their associates or shareholders, which to the knowledge of the directors own more than 5% of the Company's issued share capital, have any interests in the above customers.

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 Listing Rules.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 32 to the financial statements.

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

WONG KAM FU

Chairman

Hong Kong, 15th October, 2004