

Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by principal activity and geographical location of markets for the year ended 30 June 2004 is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATION

The Group's profit for the year ended 30 June 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 20 to 21.

The directors of the Company recommend the payment of a final dividend of HK0.2 cent per ordinary share in respect of the year ended 30 June 2004, to shareholders whose names appear on the register of members on 30 November 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in the section under "Dividends" in note 3 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and of the assets, liabilities and minority interests of the Group for the last five financial years is set out below. The amounts for the financial year ended 30 June 2004 are those set out in the accompanying financial statements on pages 20 and 21. The amounts for the financial year ended 30 June 2003 and before are extracted from previously published audited financial statements of the Company and restated as appropriate. The restatements made to these prior year amounts are in respect principally of retrospective adoption of accounting standards that came into effect subsequent to the respective former financial year.

RESULTS

	Year ended 30 June				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>189,026</u>	<u>208,770</u>	<u>248,829</u>	<u>225,601</u>	<u>221,300</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>30,345</u>	<u>40,356</u>	<u>64,868</u>	<u>50,088</u>	<u>49,398</u>

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ASSETS, LIABILITIES AND MINORITY INTERESTS

	2004 HK\$'000	2003 HK\$'000	At 30 June		2000 HK\$'000
			2002 HK\$'000	2001 HK\$'000	
NON-CURRENT ASSETS	246,550	185,258	146,592	139,467	77,510
CURRENT ASSETS	273,401	298,277	259,680	221,226	194,292
TOTAL ASSETS	519,951	483,535	406,272	360,693	271,802
CURRENT LIABILITIES	16,686	19,516	16,909	24,851	47,462
NON-CURRENT LIABILITIES	4,073	4,697	5,599	5,460	5,728
TOTAL LIABILITIES	20,759	24,213	22,508	30,311	53,190
MINORITY INTERESTS	–	20,924	–	5,984	–
NET ASSETS	499,192	438,398	383,764	324,398	218,612

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital, the reasons thereof, and details of the Company's share options outstanding during the year are set out in notes 29 and 30 to the financial statements.

WARRANTS

The Company has warrants in issue during the year which enable the holders thereof to subscribe for a maximum of 360,000,000 new ordinary shares in the Company at a subscription price of HK\$0.37 per share. During the year, a total of 97,180,000 warrants were exercised and resulted in the issue of 97,180,000 new shares in the Company for a total cash consideration of approximately HK\$35,957,000. The subscription rights attached to all remaining warrants previously existed with the Company have expired on 15 March 2004 and there are no outstanding warrants at the date of this report.

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2004, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$9,206,000 as computed in accordance with the Companies Act 1981 of Bermuda. In addition, under the laws of Bermuda, the Company's share premium account, with a balance of approximately HK\$26,239,000 as at 30 June 2004, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

Purchases from the Group's five largest suppliers accounted for approximately 55% of the total purchases for the year and the purchases from the largest supplier included therein amounted to 16%.

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

DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

Executive directors

Mr. Ng Leung Ho

Mr. Ng Leung Tung

Ms. Lee Ming Hin

Mr. Hu Xiaoming

(appointed on 19 July 2004)

Mr. Wang Weining

(appointed on 19 July 2004)

Non-executive director

Mr. Chen Ming Kui

(resigned on 23 September 2004)

Independent Non-executive directors

Mr. Lo Cheung Kin

Mr. Zou Zi Ping

Mr. Zhu Jian Hong

(appointed on 23 September 2004)

In accordance with the bye-laws 111(A) and 111(B) of the Company, Ms. Lee Ming Hin shall retire from office by rotation and, being eligible, offer herself for re-election at the forthcoming annual general meeting.

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In accordance with the bye-law 115 of the Company, Mr. Hu Xiaoming, Mr. Wang Weining and Mr. Zhu Jian Hong shall hold office until the forthcoming annual general meeting, who retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation of independence from each of the Independent Non-executive director and consider the confirmation continues to be valid at the date of this report.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Executive directors

Mr. Ng Leung Ho, aged 56, is the Chairman and the founder of the Group. He is also the chairman of Zhongke Nanotech Engineering Center Co., Ltd., the jointly controlled entity of the Company engaged in the business of Nano technology applications. Mr. Ng has more than 35 years of experience in the design, manufacture, and trading of men's suits in Hong Kong and the People's Republic of China (the "PRC"). Mr. Ng is currently a member of the Chinese People's Political Consultative Conference and is a visiting professor at the Fujian Teachers University. Mr. Ng is responsible for the corporate strategic planning and formulation of corporate policies for the Group. In addition, Mr. Ng oversee the Group's product development and industrialization efforts in various areas of Nano technology, made possible through the application of results obtained from research undertaken by the Group's joint venture of Zhongke Nanotech Engineering Center Co., Ltd.

Mr. Ng Leung Tung, aged 37, is the Deputy Chairman and joined the Group in 1991. Mr. Ng Leung Tung is responsible for the overall management of the Group's factory in Putian City and oversees the sales and marketing of the Group's products in the PRC market. Mr. Ng Leung Tung is a brother of Mr. Ng Leung Ho.

Ms. Lee Ming Hin, aged 49, is an executive director and joined the Group in 1991. Prior to joining the Group, Ms. Lee had more than 14 years of experience in raw material procurement, sales and marketing in the apparel industry. Ms. Lee currently oversees the general administration, finance, personnel functions and raw material procurement of the Group.

Mr. Hu Xiaoming, aged 39, was appointed executive director of the Company on 19 July 2004. He is responsible for overseeing the industrialization of research results obtained from the Group's interest in nano-technology research. Mr. Hu obtained his Doctorate degree in Polymer Chemistry and Physics from the Department of Organic Silane, Institute of Chemistry, Chinese Academy of Science and further his post-doctoral studies in Chemistry in Tsing Hua University. Mr. Hu has worked as an associate researcher with the Institute of Chemistry, Chinese Academy of Science, and currently held the post of deputy general manager in Zhongke Engineering Center Co., Ltd., a joint venture company established by a subsidiary of the Company and the Chinese Academy of Science.

Mr. Wang Weining, aged 31, was appointed executive director of the Company on 19 July 2004. He is responsible for overseeing the business and market development of the Group's Hi-Tech business interests in Nano-technology and software compression products. Mr. Wang held a Doctorate degree in condensed matter physics from Institute of Physics, Chinese Academy of Science, and also a Master degree in Engineering. Before joining the Group, Mr. Wang has undertaken post doctorate research in the field of Nano-technology in the Chinese Academy of Science, and has also worked as a patent attorney in Beijing.

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Non-executive director

Mr. Chen Ming Kui, aged 50, is a senior economist and was a member of the National People's Congress of the PRC. Mr. Chen has extensive experience in corporate management, trading and retailing. Mr. Chen is also a part-time professor at the Fujian Teachers University. Mr. Chen has resigned as a non-executive director on 23 September 2004.

Independent non-executive directors

Mr. Lo Cheung Kin, aged 56, graduated from the Fujian Teachers University in 1975. Mr. Lo is a director of the companies under the Victorfield Group in Hong Kong, a private investment group engaged in property development, management and investment, construction, trading and securities business in Hong Kong and the PRC. Mr. Lo has more than 26 years of experience in corporate management, the tourism and hospitality industry, and property investment, development and management in the PRC. Mr. Lo is also an executive director of Buildmore International Limited, a company listed on the Stock Exchange of Hong Kong Ltd.

Mr. Zou Zi Ping, aged 50, has extensive experience in the hotel industry in the PRC. He is currently the general manager of the Fuzhou Lakeside Hotel and the managing director of the Fuzhou Lakeside Hotel Management Company. Mr. Zou is also a visiting assistant professor of the Fujian Teachers University and Fujian Minjiang University.

Mr. Zhu Jian Hong, aged 39, is a member of the Chinese Institute of Certified Public Accountants. Mr. Zhu graduated from the Accountancy Department of the Shanghai University of Finance and Economics and has obtained over 16 years of experience in accountancy and financial management, including working as lecturer of accountancy in Jimei Finance & Economics College in Xiamen Special Economics Zone and statutory audit of companies' financial statements. Mr. Zhu was also a member of Financial Bureau of Xianyou Province, Fujian, the PRC, where he held the responsibility of provincial administration of accountancy and finance.

Senior management

Mr. Lam J Fung, aged 37, is the financial controller and the company secretary of the Company. Mr. Lam obtained his bachelor degree in Social Science from the University of Hong Kong and is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Lam has over 12 years of experience in auditing, accounting and finance.

Mr. Zhong Ming Cheng, aged 51, is a director of Digital 910 Limited. Mr. Zhong is also the general manager of Zhongke Nanotech Engineering Center Co., Ltd., the Group's joint venture company engaged in the business of Nano technology applications. Mr. Zhong graduated from the School of Business Administration of Management Executive Officer College, Jiangsu province in 1984 and the School of Business Administration of the Chinese Communist Party School, Jiangsu province with a bachelor's degree in 1994, and obtained a post-graduate qualification from the School of Finance and Economics of Suzhou University in 1997. Mr. Zhong joined the Group in 2001. He is a senior economist and has more than 23 years of experience in general management and administration in various industries. Mr. Zhong currently takes up his principal duties of overseeing the general management and business development of the Suzhou operation of Zhongke Nanotech.

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Mr. Hui Kin Chung, aged 37, is the factory manager of Good Fellow Garment (Fujian) Co., Ltd. and oversees the Group's production process and quality control. Mr. Hui joined the Group in 1989 and has over 19 years of experience in the apparel manufacturing industry.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ng Leung Ho, Mr. Ng Leung Tung and Ms. Lee Ming Hin, being executive directors, has entered into service contract with the Company for a term of three years commencing 25 October 2004. Each of Mr. Hu Xiaoming and Mr. Wang Weining, being executive directors, has entered into service contract with the Company for a term of three years commencing 19 July 2004. In addition, Ms. Lee Ming Hin, Mr. Hu Xiaoming and Mr. Wang Weining shall be subject to retirement by rotation in accordance with the bye-laws of the Company. The remuneration and discretionary bonus entitled by the executive directors (subject to certain conditions) may be increased by an annual increment of no more than 5 per cent after each year of completed service. The term of office of each executive director may be terminated with three months' notice served by either party on the other.

The independent non-executive directors of the Company are not appointed for a specific term and are subject to retirement by rotation and re-election in accordance with the bye-laws of the Company.

Save as disclosed above, no director of the Company 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.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OR SHORT POSITION IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the interests or short positions of directors or chief executives of the Company or their respective associates in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO were as follows:

	Personal interest	Family interests	Corporate interests	Total interests	Total interests as % of the issued share capital	Interests in underlying shares (share options)	Total interests (including underlying shares) as % of issued share capital
Mr. Ng Leung Ho	60,946,000	–	960,000,000 <i>(Note 1)</i>	1,020,946,000	41.5%	7,200,000 <i>(Note 2)</i>	41.8%

Notes:

- These shares were held by Golden Prince Group Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Golden Prince Group Limited is directly wholly owned by Mr. Ng Leung Ho.
- These share options, exercisable at HK\$0.10 per share, were granted pursuant to a previously existed share option scheme adopted by the Company, which was terminated on 23 November 2001. The share options remain outstanding and are exercisable during the period from 1 May 1999 to 24 October 2008.

Save as disclosed above, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of the SFO or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities transaction by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the Directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities transaction by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules in respect of securities dealing by directors. The Company has made specific enquiry to all directors of the Company in respect of securities dealing by the directors and is not aware of any non-compliance with the Model Code.

SHARE OPTION SCHEME

The Company operates a share option scheme under which options may be granted to eligible participants including directors and employees of the Company and its subsidiaries to subscribe for new shares in the Company. Details of the Company's share option scheme are set out in note 30 to the financial statements.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefit scheme in operation for the financial year ended 30 June 2004 are set out in note 3 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the Company had been notified of the following substantial shareholder's interests or short positions, being 5% or more of the Company's issued share capital:

Name	Capacity	Number of shares	Percentage of holding
Mr. Ng Leung Ho	Beneficial owner	1,028,146,000 (<i>Note 1</i>)	41.8%
Golden Prince Group Limited	Beneficial owner	960,000,000 (<i>Note 2</i>)	40.6%

Notes:

- The beneficial interests of Mr. Ng Leung Ho in 1,028,146,000 shares comprise corporate interest in 960,000,000 shares, held through Golden Prince Group Limited, and personal interest in 68,146,000 shares, comprising 60,946,000 shares and 7,200,000 underlying shares in respect of shares options granted by the Company to him.
- The entire issued share capital in Golden Prince Group Limited is beneficially owned by Mr. Ng Leung Ho, whose interests in shares of the Company are disclosed in the section headed "Directors' and chief executive's interests in shares or short position in shares and underlying shares".

Save as disclosed above, at 30 June 2004, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interest and short positions, being 5% or more of the Company's issued share capital.

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DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no directors of the Company are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses for which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

CONNECTED TRANSACTION

On 18 March 2004, Holt Hire Holdings Limited, a wholly-owned subsidiary of the Company entered into an agreement with Rise Star Investment Limited, a company incorporated in the British Virgin Islands, for the acquisition of the entire issued share capital of Charming World Investments Limited (“Charming World”) at a provisional consideration of HK\$98 million (subject to downward adjustment). The principal asset of Charming World consisted of a 40% equity interest in Putian City Keneng Hi-Tech Development Co. Ltd. (“Putian Keneng”), a limited liability company established in the PRC and owned as to 60% by a wholly-owned subsidiary of the Company. In turn, Putian Keneng holds as its principal asset a 55% equity interest in Zhongke Nanotech Engineering Center Co., Ltd. (“Zhongke Nanotech”), a PRC limited liability company engaged in the development and sale of nano material and related products. Rise Star, by virtue of being a substantial shareholder of Putian Keneng which is a non-wholly owned subsidiary of the Company, is a connected person of the Company under the Listing Rules.

The directors believe that the acquisition is in line with the Group’s strategy of business diversification and will contribute to an overall increase in value of the Company’s shares through an increased stakeholding in the high profit growth potential of nano technology business. Further details of the connection transaction, in addition to the foregoing disclosure made in accordance with Chapter 14A of the Listing Rules, are set out in the Company’s circular to its shareholders of 13 April 2004 in connection with the disclosable and connected transaction.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”), as set out in appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report except that independent non-executive directors are not appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee currently comprises the three independent non-executive directors of the Company, namely, Mr. Lo Cheung Kin, Mr. Zou Zi Ping and Mr. Zhu Jian Hong. The financial statements of the Group for the year ended 30 June 2004 has been reviewed by the audit committee, which include a review and discussion of the accounting principles and practices adopted by the Group in preparing these financial statements.

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AUDITORS

The financial statements of the Group for the year ended 30 June 2002 were audited by Ernst & Young, the office of which was removed pursuant to a resolution reached by shareholders of the Company in a Special General Meeting held on 18 July 2003. The financial statements of the Group for the years ended 30 June 2003 and 2004 were audited by RSM Nelson Wheeler. Apart from the foregoing, there were no other changes to the auditors of the Company for the preceding three financial years.

RSM Nelson Wheeler retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ng Leung Ho
Chairman

Hong Kong, 26 October 2004