

Report of the Directors

The directors of the Company ("Directors") are pleased to present the annual report and the audited financial statements of the Company and the Group for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investing in listed and unlisted companies mainly in Hong Kong and the People's Republic of China (the "PRC"). The activities of the subsidiaries are set out in note 14 to the financial statements.

An analysis of the Group's performance for the year by geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 17 to 39.

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2004.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the statement of changes in equity.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 18 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 30 June 2004, amounted to HK\$32,689,000 (Period ended 30 June 2003: Nil), calculated in accordance with the laws of the Cayman Islands.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of the Cayman Islands.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last two financial year/period, as extracted from the audited financial statements, is set out on page 40.

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PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SHARE OPTIONS

The details of the share option scheme adopted by the Company on 30 September 2003 are set out in note 19 to the financial statements. No share option has been granted during the year.

DIRECTORS

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

Executive directors

Mr. Yau Chung Hong	(appointed on 28 November 2002)
Mr. Pong Po Lam	(appointed on 10 September 2003)
Mr. Walter Gilbert Mearns Nimmo	(appointed on 10 September 2003)

Non-executive directors

Mr. Ma Kwok Keung, Kenneth	(appointed on 6 August 2004)
Mr. Wang Zeng Jie	(appointed on 10 September 2003)
Mr. Cheung Hung	(appointed on 10 September 2003 and resigned on 6 August 2004)

Independent non-executive directors

Mr. Chan Ming Sun, Jonathan	(appointed on 6 August 2004)
Mr. Lam Kwan	(appointed on 10 September 2003)
Mr. Shiu Siu Tao	(appointed on 27 September 2004)
Ms. Hui Sham Ling, Teresa	(appointed on 10 September 2003 and resigned on 6 August 2004)

In accordance with Article 87(3) of the Company's articles of association, all directors shall retire at the forthcoming annual general meeting. All directors being eligible will, except Mr. Walter Gilbert Mearns Nimmo, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service agreements with the Directors as follow:

Mr. Yau Chung Hong, Mr. Pong Po Lam, Mr. Walter Gilbert Mearns Nimmo entered into service contract with the Company for an initial term of two years commencing 2 October 2003 which will continue thereafter until terminated by either party serving the other a three calendar months' prior written notice.

Mr. Wang Zeng Jie and Mr. Lam Kwan were appointed for a term of two years commencing from 27 October 2003.

Mr. Cheung Hung and Ms. Hui Sham Ling, Teresa were appointed for a term of one year commencing from 27 October 2003.

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Mr. Ma Kwok Keung, Kenneth and Mr. Chan Ming Sun, Jonathan were appointed on 6 August 2004 and will continue in office until terminated at any time by either party giving to the other a written notice of termination of not less than one month or payment in lieu of notice.

Mr. Shiu Siu Tao was appointed for a term of one year commencing from 27 September 2004.

Save as aforesaid, none of the directors has entered or is preparing to enter into a service contract with the Company or its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in note 23 to the financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests and short positions of the Directors in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

LONG POSITIONS

Ordinary shares of HK\$0.01 each of the Company

Name	Type of Interests	Capacity	Number of issued ordinary shares held	Approximate % of the issued share capital
Yau Chung Hong ("Mr. Yau")	Corporate	Interest of a controlled corporation	3,700,000 (Note 1)	6.98
Walter Gilbert Mearns Nimmo ("Mr. Nimmo")	Family	Interest of a spouse	200,000 (Note 2)	0.38

Notes:

- 3,000,000 and 700,000 totaling 3,700,000 shares are owned by Sellwell Enterprises Limited ("Sellwell") and CNI Capital Limited ("CNI Capital"), which are incorporated in the British Virgin Islands and Hong Kong respectively. CNI Capital was 33.33% owned by Sellwell, which was 100% owned by Mr. Yau. By virtue of the SFO, Mr. Yau was taken to be interested in the shares held by each of Sellwell and CNI Capital.
- 200,000 shares are owned by Mrs. Sharman Louise Nimmo, who is the spouse of Mr. Nimmo. By virtue of the SFO, Mr. Nimmo was taken to be interested in the shares held by Mrs. Sharman Louise Nimmo.

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Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 30 June 2004 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the parties which had interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, were as follows:

LONG POSITIONS

Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Approximate % of the issued share capital
Li Yiu Keung	Beneficial owner	8,000,000	15.09
Worldwide Opportunity Fund (Cayman) Limited	Interest of a controlled corporation	3,100,000 (Note 1)	5.85
Yau Chung Hong	Interest of a controlled corporation	3,700,000 (Note 2)	6.98

Notes:

- 3,100,000 shares are held by Herma Investments Company Limited ("Herma"), which is wholly owned by Worldwide Opportunity Fund (Cayman) Limited ("Worldwide Opportunity"). By virtue of the SFO, Worldwide Opportunity was taken to be interested in the Shares held by Herma.
- This shareholding has also been included as corporate interests of directors under the section headed "Directors' interests and short position in shares, underlying shares and debentures" above.

Save as disclosed above, as at 30 June 2004, the Directors were not aware of any other person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under 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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DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director, the chief executive or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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 existed during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Set out below is information disclosed pursuant to paragraph 8.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Mr. Pong Po Lam holds directorships in the following investment companies:

Pegasus Midas Managed Fund Limited
Kallista HY Arbitrage Fund Limited
Kallista CB Arbitrage Fund Limited
Kallista US Equity Fund Limited
Kallista Arbitrage Strategies Fund Limited
Prime Investments (Holdings) Limited

The businesses of the above companies are deemed to constitute a competing business to the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules since the date of listing of the Company's shares, except that Mr. Chan Ming Sun, Jonathan, an independent non-executive director of the Company is not appointed for a specific term but is subject to retirement and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

RELATED PARTY AND CONNECTED TRANSACTIONS

Details of the related party and connected transactions of the Group during the year are set out in note 23 to the financial statements.

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AUDIT COMMITTEE

The Company established an audit committee on 27 October 2003 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

The audit committee consists of three independent non-executive directors, namely, Mr. Chan Ming Sun, Jonathan, Mr. Lam Kwan and Mr. Shiu Siu Tao. The audit committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the audited annual results for the year ended 30 June 2004.

AUDITORS

The financial statements have been audited by KLL Associates CPA Limited.

A resolution will be submitted at the forthcoming annual general meeting to re-appoint KLL Associates CPA Limited as auditors of the Company.

On behalf of the Board

Yau Chung Hong

Executive Director

Hong Kong, 27 October 2004