

## Report of the Directors

The directors of the Company ("Directors") present their report and the audited financial statements of the Company and its subsidiaries (collectively "Group") for the year ended 31 July 2004.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in investments in Internet, information technology and other activities, natural gas business and manufacture and trading of silicone rubber products.

### RESULTS

The Group's loss for the year ended 31 July 2004 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 18 to 58.

The Directors do not recommend the payment of any dividends for the year.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 59. This summary does not form part of the audited financial statements.

### SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 July 2004 is set out in note 4 to the financial statements.

### FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

### CONVERTIBLE NOTES

Details of the convertible notes of the Company are set out in note 23 to the financial statements.

### SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in note 25 to the financial statements.

### SHARE OPTION SCHEMES

Share options have been granted to eligible participates under the share option scheme of the Company adopted on 31 January 2002, details of which are set out in note 26 to the financial statements.

Concerning the above share options granted during the year, the directors do not consider it appropriate to disclose a theoretical value of the share options granted, because in the absence of a readily market value of the share options of the Company, the Directors were unable to arrive at an assessment of the value of these share options.

## 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, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 July 2004, no reserve of the Company was available for distribution to shareholders of the Company. In addition, the Company's share premium account of HK\$993,975,000 as at 31 July 2004, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales attributable to the Group's major suppliers and customers are as follows:

	2004 %	2003 %
Purchases		
– the largest supplier	<b>34.2</b>	11.6
– five largest suppliers combined	<b>66.9</b>	36.7
Turnover		
– the largest customer	<b>16.5</b>	8.7
– five largest customers combined	<b>47.9</b>	29.3

None of the Directors or any of their associates (as defined in the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange")) or any shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers.

# Report of the Directors

## DIRECTORS

The Directors during the year and up to the date of this report are:

### Executive Directors

Mr WONG Kui Shing, Danny (Chairman & Chief Executive Officer)	(resigned on 11 June 2004 and appointed on 17 September 2004)
Mr Masanori SUZUKI (Deputy Chairman)	(re-designated as Executive Director on 17 September 2004)
Mr Eiji SATO	(appointed on 23 September 2004)
Mr WONG King Shiu, Daniel	
Mr ZHOU Weirong	(appointed on 30 September 2003 and resigned on 16 September 2004)
Mr KAN Kwok Shu	
Mr LIN Che Chu, George	

### Independent Non-Executive Directors

Mr CHEUNG Man Yau, Timothy	
Mr CHUK Che Shing	
Mr KIM Kwi Nam, Takao	(appointed on 23 September 2004)

In accordance with the Company's Bye-law 86(2), Mr Eiji Sato and Mr Kim Kwi Nam, Takao will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In accordance with the Company's Bye-laws 87 and 169(2), Mr Wong King Shiu, Daniel and Mr Lin Che Chu, George will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## INDEPENDENCE CONFIRMATION

The Company has received written confirmation from each of the Independent Non-executive Directors in respect of their independence pursuant to rules 3.13 and 3.15 of the Listing Rules. The Independent Non-executive Directors have confirmed that they are independent.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its code for securities transactions by Directors. Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### Executive Directors

**WONG Kui Shing, Danny**, aged 45, was appointed Director, Chief Executive Officer and Chairman of the Company in September 2004. He is responsible for the overall management and decision making on the policy and strategic development of the Group. He has extensive exposure in the financial and investment fields for over 18 years and is well experienced in international market. Mr Wong graduated with a Bachelor of Arts degree from the University of Hong Kong.

**Masanori SUZUKI**, aged 46, was appointed Director in March 2000 and re-designated as Executive Director in September 2004. He was a director of Hikari Tsushin, Inc in charge of global strategy and investment planning. Prior to joining the Hikari Tsushin group in Japan, Mr Suzuki was a general manager of Jafco, a global venture capital firm and a director of Credit Suisse First Boston Securities. During his services with Nomura Securities Co, Ltd, Mr Suzuki was responsible for investment banking and corporate finance in the Asia-Pacific region. He is currently the president of Ashford Capital K.K.. Mr Suzuki has a strong background in finance and administration in strategic investment. He holds a Master of Arts in International Relations from International University of Japan and Johns Hopkins University and a Bachelor's degree in Economics from Keio University.

**Eiji SATO**, aged 43, was appointed Director of the Company in September 2004. He graduated from Keio University in 1984 with a Bachelor of Science in Commerce. He co-founded Japan Teikei Card K.K., a consulting firm specialised in credit card business in Japan, and at which he is the president and chief executive officer. He is also a board member of one of the largest entertainment planning and artists management company in Japan.

**WONG King Shiu, Daniel**, aged 45, was appointed Director of the Company in January 2002. He is responsible for the Group's overall investment and operations. Mr Wong has over 12 years' investment experience. He graduated from Haking Wong Technical Institute.

**KAN Kwok Shu**, aged 47, was appointed Director and Deputy Chief Executive Officer of the Company in March 2001. Besides participating in strategic development and overall operation, Mr Kan is also involved in the decision making on the overall investments of the Group. Prior to joining the Group, Mr Kan held various senior positions in leading fund management companies such as Jardine Fleming Investment Management Limited, Euro Pacific Advisers Limited and Thornton Management (Asia) Limited. Mr Kan has over 18 years of investment experience in the Asia-Pacific region, in particular the Greater China Market. Mr Kan obtained a Bachelor's degree in Commerce from the University of Calgary, Canada.

**LIN Che Chu, George**, aged 41, was appointed Director of the Company in April 2002. He oversees and monitors the Group's natural gas-related operation and is closely involved in its strategic decision making and policy setting. He is a direct investment expert with over 12 years' experience in hi-tech investment and venture fund management and an investment professional with domain know-how in technology field. Mr Lin was the president of various venture fund management companies in Taiwan, including Capital Venture Management Limited, Agora Investment Management Limited and CYPAC Investment Management Limited. He was the vice-president of Central Investment Holding Co., Ltd. Mr Lin holds a Bachelor degree in Engineering from Feng Chia University, Taiwan and a Master of Business Administration degree from Illinois Institute of Technology, Chicago, USA.

## Report of the Directors

### Independent Non-executive Directors

**CHEUNG Man Yau, Timothy**, aged 46, was appointed an independent non-executive Director in April 2002. He is currently a practising accountant and an associate of Hong Kong Institute of Certified Public Accountants and a fellow of the Chartered Association of Certified Accountants. He has more than 22 years of extensive experience in the finance field and previously worked for a number of international accounting firms and listed companies in Hong Kong. Mr Cheung graduated from the University of Hong Kong with a Bachelor of Arts degree.

**CHUK Che Shing**, aged 54, was appointed an independent non-executive Director in July 2003. Mr Chuk has over 25 years of experience in managing knitting business.

**KIM Kwi Nam, Takao**, aged 27, was appointed an independent non-executive Director in September 2004. Mr Kim holds a Degree of Bachelor of Science Business Administration from Pepperdine University, Malibu, California, the United States. He is a founder and the chief executive officer of Benny Enterprise, Inc which is actively involved in artists management and allied with a few large mobile content companies in Japan. Mr Kim has also worked in international division of strategic investment planning of a major Japanese investment company.

### EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and of the five highest paid individuals of the Group are set out in notes 8 and 9 to the financial statements respectively.

### DIRECTORS' SERVICE CONTRACTS

The Company and its subsidiary entered into service contract with Mr Lin Che Chu, George and Mr Wong King Shiu, Daniel respectively where these contracts will continue in force until terminated by either party giving not less than three months' prior written notice to the other.

There is also a service contract between the Company and each of Mr Eiji Sato and Mr Kim Kwi Nam, Takao where these contracts will continue in force until terminated by either party giving at least one month's prior written notice to the other.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a 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.

### DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest in any contract of significance to the business of the Group to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party during the year under review.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 July 2004, the Directors and chief executive of the Company and their respective associates, if any, had the following interests and short positions in the shares ("Shares") and underlying shares of the Company as recorded in the register required to be kept 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:

### I. Shares

Name of Director	Capacity	Nature of Interest	Number of Shares	% of Issued Shares
ZHOU Weirong	Having an interest in a controlled corporation	Corporation	2,180,122,000	22.90
WONG Kui Shing, Danny	Being a beneficial owner	Personal	15,400,000	0.16

Note:

As at 31 July 2004, the 2,180,122,000 Shares were held by Noble Islands Int'l Limited ("Noble Islands"). Of this number, 2,067,722,000 Shares were registered in the name of Kingston Finance Limited and were charged. The entire issued share capital of Noble Islands was held by Capital Fortune Investments Limited ("Capital Fortune") which had in turn been held by Mr Zhou Weirong. In accordance with the SFO, Mr Zhou was deemed to be interested in the 2,180,122,000 Shares held by Noble Islands. Mr Zhou resigned as Director on 16 September 2004.

Subsequent to the year-end date, on 16 September 2004, Capital Fortune sold its entire interest in Noble Islands to Power Honest Holdings Limited ("Power Honest"), of which the sole owner is Mr Wong Kui Shing, Danny, who was appointed as Director on 17 September 2004. According to the SFO, Mr Wong Kui Shing, Danny has a deemed interest of the 2,180,122,000 Shares held by Noble Islands, and together with his beneficial interest of 15,400,000 Shares, he is aggregately interested in 2,195,522,000 Shares, representing 21.44% of the issued shares as at the date of this report.

### II. Share Options

Name of Director	Date of Grant	Exercise Price per Share	Exercise Period	Closing Price Before Date of Grant	Movement of Option Shares during the year				
					As at 1.8.2003	Granted	Exercised	Lapsed	As at 31.7.2004
		HK\$		HK\$					
WONG King Shiu, Daniel	03.06.2002	0.153	03.06.2002 - 31.05.2004	0.151*	46,600,000	-	-	46,600,000	-
KAN Kwok Shu	15.03.2002	0.055	15.04.2002 - 14.03.2004	0.055	19,890,000	-	19,890,000	-	-
CHEUNG Man Yau, Timothy	04.07.2002	0.118	04.07.2002 - 03.07.2004	0.118	4,600,000	-	-	4,600,000	-

\* The closing price before the date of grant refers to the closing price on the date of the Board meeting at which the Board proposed to grant option to Mr Wong King Shiu, Daniel.

## Report of the Directors

Subscription rights attaching to the share options are exercisable at different stages as determined by the Board.

Save as disclosed above, the Company or any of its associated corporations did not grant to any Director, their respective spouse or children under 18 years of age of any such Director any right to subscribe for securities of the Company or any of its associated corporations, nor had there been any exercise of such right by such persons during the year.

Save as disclosed above, as at 31 July 2004, none of the Directors, chief executive or their associates had or were deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, 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 Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31 July 2004, the following persons, other than the Directors or chief executive of the Company as disclosed aforesaid, had an interest of 5% or more in the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Capacity	Number of Shares held	% of Issued Shares
Noble Islands	1, 2	Being a beneficial owner	2,180,122,000	22.90
Capital Fortune	1	Having an interest in a controlled corporation	2,180,122,000	22.90
Kingston Finance Limited	1, 2, 4	Having a security interest	2,067,722,000	21.72
Chu Yuet Wah	2, 3, 4	Having an interest in a controlled corporation	2,067,722,000	21.72
Ma Siu Fong	2, 3, 4	Having an interest in a controlled corporation	2,067,722,000	21.72
Wu Xu Wen	5	Being a beneficial owner	526,026,000	5.52

*Notes:*

1. Out of these 2,180,122,000 Shares held by Noble Islands, 2,067,722,000 Shares were registered in the name of Kingston Finance Limited and were charged. As at 31 July 2004, the entire issued share capital of Noble Islands was held by Capital Fortune which was in turn held by Mr Zhou Weirong. In accordance with the SFO, Mr Zhou was deemed to be interested in the 2,180,122,000 Shares held by Noble Islands. Mr Zhou resigned as Director on 16 September 2004.

Subsequent to the year-end date, on 16 September 2004, Capital Fortune sold its entire interest in Noble Islands to Power Honest, of which the sole owner is Mr Wong Kui Shing, Danny, who was appointed as Director on 17 September 2004. According to the SFO, Mr Wong Kui Shing, Danny has a deemed interest of the 2,180,122,000 Shares held by Noble Islands, and together with his beneficial interest of 15,400,000 Shares, he is aggregately interested in 2,195,522,000 Shares, representing 21.44% of the issued shares as at the date of this report.

2. Kingston Finance Limited has a security interest in the 2,067,722,000 Shares owned by Noble Islands, which relate to the same block of Shares as mentioned in Note 1 above.
3. Subsequent to the year-end date, on 21 October 2004, Kingston Securities Limited as underwriter entered into an underwriting agreement with the Company and pursuant to which, Kingston Securities Limited was interested in a derivative of 5,232,559,710 Shares, representing 27.55% of the enlarged share capital of the Company as a result of the proposed rights issue as contemplated under the said underwriting agreement and of the full exercise and conversion of all the outstanding share options and convertible notes of the Company.
4. As the controlling shareholders of Kingston Finance Limited and Kingston Securities Limited, Ms Chu Yuet Wah and Ms Ma Siu Fong are deemed to have interests of 2,067,722,000 Shares held by Kingston Finance Limited and derivative of 5,232,559,710 Shares held by Kingston Securities Limited as mentioned in Notes 2 and 3 above.
5. The 526,026,000 Shares represented about 5.52% of the issued shares capital of the Company as at 31 July 2004 and as reported, this block of Shares represented 6.05% of the issued share capital of the Company as at 1 April 2003.

Save as disclosed aforesaid, the Directors are not aware of any person, other than the Directors or chief executive of the Company, who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 July 2004.

**CONNECTED TRANSACTION**

During the year under review, the Group had no connected transaction.

**CAPITAL STRUCTURE**

During the year under review, the Company's issued share capital was increased by the placement of 500,000,000 new Shares and the exercise of 336,190,000 option shares. In addition, the Company issued convertible note in an aggregate principal amount of HK\$20,000,000 in January 2004 which has not been converted as at the balance sheet date, and if fully converted at the conversion price of HK\$0.05, a total of 400,000,000 Shares will be issued.

Subsequent to the balance sheet date and as at the date of this report, the Company has totally issued convertible notes in an aggregate principal amount of approximately HK\$40,600,000 and, if fully converted at the conversion price of HK\$0.025, a total of 1,624,000,000 Shares will be issued.

## Report of the Directors

In October 2004, the Company proposed a rights issue on the basis of two rights shares of HK\$0.025 each for every ten existing Shares with bonus shares to be issued on the basis of three bonus shares for every two fully-paid rights shares ("Rights Issue"). The Rights Issue is fully underwritten by Kingston Securities Limited and is expected to be completed at the end of December 2004. The net proceeds to be raised from the Rights Issue will be approximately HK\$ 50,000,000 and a total of 5,120,920,710 Shares will be issued under the Rights Issue.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

During the year, none of the executive Directors are interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business.

### **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

### **CODE OF BEST PRACTICE**

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, for any part of the accounting year covered by this report. In accordance with the Code of Best Practice, the Board of Directors established an audit committee in 1998. The audit committee, consisting of three Independent Non-executive Directors of the Company, reviews and supervises the Group's financial reporting and internal control systems.

### **PUBLIC FLOAT**

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

### **AUDITORS**

Messrs Ernst & Young retired 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

**Wong Kui Shing, Danny**

*Chairman*

Hong Kong, 29 November 2004