

DIRECTORS' REPORT

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The directors have pleasure in presenting their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and provides corporate management services. The principal activities of the Company's subsidiaries are set out in note 31 to the financial statements.

SEGMENTAL INFORMATION

Details of segmental information are set out in note 5 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers in aggregate accounted for less than 30% of the Group's total purchases for the year.

The five largest customers in aggregate accounted for 35% of the Group's turnover and the largest customer accounted for 12% of the Group's turnover for the year.

None of the directors, their associates or shareholders, who to the knowledge of the directors own more than 5% of the Company's share capital, had any interest in any of the five largest customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 20.

The directors now recommend the payment of a final dividend of HK\$0.004 per share to the shareholders on the register of members on 29 April 2005, amounting to HK\$15,758,000 and the retention of the remaining profit for the year of HK\$26,354,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of HK\$5,884,000 for the expansion of production capacity. Movements during the year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

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MAJOR PROPERTIES

Particulars of the Group's major properties at 31 December 2004 are set out on page 56.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 31 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the Company's share capital are set out in note 23 to the financial statements.

SHARE OPTIONS

The Company has adopted a share option scheme (the "Scheme"), which was approved at a special general meeting of the Company held on 9 April 1999, for the primary purpose of providing incentives to its employees. Pursuant to the Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher. The share options are exercisable at any time for a period to be determined by its directors, which shall not be more than ten years from the adoption of the Scheme up to 8 April 2009. Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$1. Unless otherwise terminated or altered, the Scheme will remain in force for a period of ten years from the date of adoption.

The maximum number of shares in respect of which options may be granted under the Scheme together with shares previously issued pursuant to options exercised under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

In accordance with The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), certain terms of the Scheme need to be amended, or alternatively, a new share option scheme needs to be implemented, in order to comply with the requirements of the Listing Rules. According to the Listing Rules as amended, no more share is available for issue under the Scheme.

No options were granted by the Company during the year and no options were outstanding at 31 December 2004.

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RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 23 and note 25 to the financial statements, respectively.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Dr. Lam How Mun Peter

Chairman and Managing Director

Mr. Cheung Chung Kiu

Mr. Lam Hiu Lo

Mr. Leung Chun Cheong

Mr. Leung Wai Fai

Ms. Poon Ho Yee Agnes

Independent non-executive directors:

Mr. Lam Kin Fung Jeffrey

Mr. Lam Ping Cheung

Mr. Wong Wai Kwong David (appointed on 28 September 2004)

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. Wong Wai Kwong David retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company.

In accordance with Clause 87 of the Company's Bye-laws, Mr. Cheung Chung Kiu retires by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company.

Messrs. Lam Kin Fung Jeffrey and Lam Ping Cheung being re-elected as independent non-executive directors on 26 May 2004, hold such office until the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

All other remaining directors continue in office.

None of the directors being 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.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 December 2004, the interests and short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, were as follows:

(a) Interests in shares of the Company (long positions)

Name of director	Nature of interest	Number of shares held	Percentage of issued share capital
Dr. Lam How Mun Peter	Personal	110,000	0.00%
Mr. Cheung Chung Kiu	Corporate (Notes 1 & 3)	2,352,396,360	59.71%
Mr. Leung Chun Cheong	Personal	7,410,000	0.19%
Ms. Poon Ho Yee Agnes	Personal	1,040,000	0.03%

(b) Interests in shares of Yugang International Limited ("Yugang"), the Company's ultimate holding company (long positions)

Name of director	Nature of interest	Number of shares held	Percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (Notes 2 & 3)	3,194,434,684	37.79%
	Personal	53,320,000	0.63%
	Total	3,247,754,684	38.42%
Mr. Lam Hiu Lo	Personal	41,800,000	0.49%

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

(c) Interests in underlying shares of Yugang (long positions)

Name of director	Nature of interest	Number of underlying shares held	Percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (Note 4)	933,333,333	11.04%

Notes:

- Such 2,352,396,360 shares are held through Regulator Holdings Limited ("Regulator"), an indirect wholly-owned subsidiary of Yugang, which is, in turn, owned as to 37.79% by Chongqing Industrial Limited ("Chongqing"). Mr. Cheung Chung Kiu is deemed to be interested in these shares by virtue of his indirect shareholding interests in Regulator.
- Such 3,194,434,684 shares are held by Chongqing. Mr. Cheung Chung Kiu is deemed to be interested in these shares by virtue of his shareholding interests in Chongqing.
- Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing respectively. Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family. Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.
- Such interest is derived from a convertible note issued by Yugang to Timmex Investments Limited in which Mr. Cheung Chung Kiu has 100% beneficial interest. The convertible note has a principal amount of HK\$70,000,000 with maturity date on 31 July 2007, and can be converted into Yugang's shares at a conversion price of HK\$0.075 per share during the period from 31 July 2004 to 31 July 2005 ("First Year"), HK\$0.082 per share for the period from 1 August 2005 to 31 July 2006 ("Second Year") and HK\$0.089 per share for the period from 1 August 2006 to 31 July 2007 ("Third Year"), subject to adjustment. Therefore, the total number of underlying shares of the convertible note will change from the First Year to the Third Year.

Save as disclosed above, at 31 December 2004, the Company had not been notified of any interests or short positions in the shares, underlying shares and 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 kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and Chief Executives' Interests in Shares of the Company and its Associated Corporations" above, at no time during the year was the Company, any of its subsidiaries or its holding company, 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, and none of the directors, or any of their associates, had any right to subscribe for shares of the Company, or had exercised any such right during the year.

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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

No director of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with any company in the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder (long positions)	Number of shares held	Percentage of issued share capital of the Company
Regulator	2,352,396,360 <i>(Note)</i>	59.71%
Yugang International (B.V.I.) Limited ("Yugang-BVI")	2,352,396,360 <i>(Note)</i>	59.71%
Yugang	2,352,396,360 <i>(Note)</i>	59.71%
Chongqing	2,352,396,360 <i>(Note)</i>	59.71%
Palin Holdings Limited ("Palin")	2,352,396,360 <i>(Note)</i>	59.71%

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SUBSTANTIAL SHAREHOLDERS (continued)

Note: The interests held by Regulator, Yugang-BVI, Yugang, Chongqing and Palin respectively as shown above refer to interests in the same block of shares. Regulator is a direct wholly-owned subsidiary of Yugang-BVI, Yugang-BVI is in turn a direct wholly-owned subsidiary of Yugang, and Yugang is owned by Chongqing as to 37.79%. Chongqing and Palin are controlled by Mr. Cheung Chung Kiu. The said interests are also duplicated with the interest in shares of the Company of Mr. Cheung Chung Kiu as disclosed under the heading "Directors' and Chief Executives' Interests in Shares of the Company and its Associated Corporations" above.

Save as disclosed above, at 31 December 2004, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company to be recorded in the register required to be kept by the Company under section 336 of the SFO.

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.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

DONATIONS

During the year, the Group made charitable donations amounting to HK\$300,000.

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2004.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2004.

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AUDITORS

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

On behalf of the Board

Lam How Mun Peter
Chairman and Managing Director

Hong Kong, 30 March 2005