

CHAIRMAN'S STATEMENT

Dear Fellow Shareholders,

On behalf of the board of directors (the "Board") of MACRO-LINK International Holdings Limited (the "Company") together with its subsidiaries (collectively the "Group"), I have the pleasure to present to you the annual report and the audited financial statement of the Group for the period from 1 July 2004 to 31 December 2004.

In this report, I would like to share with you the progress we made since MACRO-LINK International Investment Co., Ltd. completed the acquisition of a 74.99% stake in the Company in March 2004. Following the acquisition, a new management team was in place to help the Group readjusted its business strategies with an aim to reduce losses and return to profitability ultimately. Therefore, the Group's under-performing projects were disposed, which resulted in the discontinuation of its property investment business. By focusing on the manufacture and development of electronic and healthcare products, the Group has been able to dedicate all its efforts to enhancing operational efficiency via stringent cost control measures as well as effective management.

The success of these efforts were reflected in the substantial reduction of loss attributable to shareholders for the 6 month period ended 31 December 2004, which stood at approximately HK\$6.3 million (for the year ended 30 June 2004: HK\$44.2 million). The Group's turnover for the period under review was approximately HK\$55.8 million.

Subsequent to the period under review, the Group took a major step to strengthen its revenue stream with the proposed purchase of a 70% equity interest in Yunnan Shangeli-La Winery Co., Ltd. ("Yunnan Shangeli-La Winery") and a 25% equity interest in Shangeli-La (Qinhuangdao) Winery Ltd. ("Shangeli-La (Qinhuangdao) Winery") on 23 February 2005. Since these two companies are principally engaged in the manufacturing and sale of grape wine and Tibetan naked barley wine in the PRC, the acquisition will provide the Group a golden opportunity to tap the country's booming wine market, thereby laying a solid platform for the Group's continuous growth in future.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the period (30 June 2004:Nil).

REVIEW OF OPERATION

Electronic Products

Thanks to the gradual economic recovery in Hong Kong and other Asia markets, the Group's consumer electronic products and industrial cable assemblies continued to post a stable growth in sales during the period under review. Though escalating crude oil prices has resulted in price hike of plastics—a major raw material for our consumer electronic products, the Group has been able to lessen its impact on production by implementing a series of cost control measures.

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Empowered by a research and development team specializing in consumer electronic products, the Group has successfully ventured into OEM and ODM business by establishing a long-term working relationship with a world-wide manufacturer in consumer electronic business. Our R&D specialists are also instrumental in the diversification of our existing product lines. The Group plans to launch more consumer electronic products in the coming year.

Healthcare Products

During the period under review, the performance of the Group's Chinese herbal business that includes the sale of Lingzhi, Cordyceps, Yunzhi and other fat reduction as well as nutritional health herb was disappointing due to fierce competition in the PRC Traditional Chinese Medicine ("TCM") market. Besides, reports of poor quality TCM products that may jeopardize people's health also made the marketing of new herbal products difficult since the increasingly health-conscious consumers tend to choose well-known brand names that have a long-established history in the market.

PROSPECT

The management remains optimistic about the Group's outlook in 2005, despite challenges that may arise from the fluctuation of crude oil prices, which not only have great impacts on the manufacturing sector but also the global economy. The Group will continue to mitigate the negative effects of crude oil price instability on its production of consumer electronic products by adhering to stringent cost control policies.

The management's confidence in the Group's continuous growth is well supported by the Group's entry into the lucrative wine market in the PRC following the announcement of the Company's proposed acquisition of majority shareholding in Yunnan Shangeli-La Winery and Shangeli-La (Qinhuangdao) Winery on 23 February 2005. Armed with 5 years' of experience in winery production, Yunnan Shangeli-La Winery is an established brand name in the PRC while Shangeli-La (Qinhuangdao) Winery is a new force in the industry with business commenced in December 2004. Based on the audited consolidated financial statements as at 30 September 2004 of Yunnan Shangeli-La Winery, for the two financial years ended 31 December 2003 and the nine months ended 30 September 2004, it recorded an audited net profit after taxation and minority interest of approximately HK\$8.02 million, HK\$16.04 million and HK\$14.12 million respectively. These strong track records reflect the profit growth potential for the Group's new winery business. In addition, Yunnan Shangeli-La Winery also made arrangements with 北京金六福酒有限公司, the vendor from which the Group will acquire its interest in Yunnan Shangeli-La Winery, on 23 February 2004 under which the latter has agreed to purchase not less than HK\$80 million worth of grape wine and Tibetan naked barley wine from the former in the financial year ending 31 December 2005. These arrangements will not only enable the Group to enjoy a steady sales volume of wine but also obtain immediate profit contributions from this new line of business in the next financial year. Moreover, the management also believes that their previous experience and expertise in the manufacture and sale of wine industry in the PRC will help the Group's winery business to grow further, propelled by the Mainland's strong GDP growth of 9.5% for 2004 as well as the robust growth in the country's per capita consumption of wine which recorded a compound annual growth of 24.2% from approximately 0.06 litres in 1997 to approximately 0.22 litres in 2003, according to "Wine in China: A Market Analysis" published by Access Asia Limited in June 2004.

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Aiming at building a portfolio of quality businesses, the Group will take proactive approaches to review and strengthen its existing businesses as well as exploring more investment opportunities in projects that offer sustainable growth advantages. With full support from its parent company, the management is confident that the Group's businesses will improve further, thereby providing handsome returns for shareholders in the future.

PLEDGE OF ASSETS

As at 31 December 2004, the Group pledged its time deposits amounting to approximately HK\$3,256,000 (at 30 June 2004: HK\$3,237,000) to secure general banking facilities granted to the Group.

LIQUIDITY AND FINANCIAL INFORMATION

As at 31 December 2004, the Group's total borrowings amounted to approximately HK\$17.3 million with approximately HK\$17.2 million repayable within one year, approximately HK\$0.1 million repayable between one to two years. Bank balances and deposits as at 31 December 2004 amounted to approximately HK\$79.6 million. The Group's current ratio was 3.3 and the gearing ratio which is expressed as a ratio of total liabilities and minority interests to shareholders' funds was 0.43. Bank balances and cash and deposits were held in Hong Kong dollars.

The Group had no significant exposure to foreign exchange fluctuations.

EMPLOYEE INFORMATION

As at 31 December 2004, the Group employed a total of 594 (at 30 June 2004: 720) full-time employees, mostly at the Group's subsidiary factories for manufacturing electronics and TCM herbal products. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group also provides medical insurance coverage and provident fund schemes (as the case may be) to its employees depending on the location of such employees.

APPRECIATION

The Directors would take this opportunity to express their sincere appreciation for all the dedicated efforts of all the management and staff of the Group during the year.

By Order of the Board

Fu Kwan

Chairman

Hong Kong, 21 April 2005