

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 12 to the accounts.

Details of analysis of the Group's turnover and contribution to operating profit for the year by business and geographical segment is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 26.

The board of directors has declared an interim dividend of HK1.5 cents per ordinary share, totalling HK\$23,368,000, which was paid on 25 October 2004.

The board of directors recommended the payment of a final dividend of HK\$2.0 cents per ordinary share, totalling HK\$32,198,000 in respect of the year ended 31 December 2004.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 21 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2004 amounted to HK\$188,574,000 (before the declaration of a final dividend), comprising share premium, contributed surplus and retained profits.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and there are no restrictions against such rights under the laws of the Cayman Islands.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 61.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company did not redeem any of its shares and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares.

DIRECTORS

The directors during the year were:

Executive directors

Chen Ying-Chieh	(Appointed as Chairman on 22 November 2004)
Chen Hsien Min	(Managing Director)
Chang Chih-Kai	(Appointed on 22 November 2004)
Chang Wen I	(Resigned as Chairman and executive director on 22 November 2004)

Independent non-executive directors

Huang Shun-Tsai	
Kuo Jung-Cheng	
Hsiao Hsi-Ming	(Appointed on 10 September 2004)

In accordance with Article 91 of the Company's Articles of Association, Messrs Chang Chih-Kai and Hsiao Hsi-Ming retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 99 of the Company's Articles of Association, Mr Huang Shun-Tsai retires by rotation and, being eligible, offer himself for re-election.

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and it considers the independent non-executive directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 15 to 17.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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, subsisted at the end of the year or at any time during the year.



Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests of the directors and chief executive in the shares and underlying 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 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 for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary shares of HK\$0.10 each of the Company

Name of director		Nature of interest	Number of shares held	Percentage
Chen Ying-Chieh	Long position	Personal/Corporate	164,338,920 (<i>Note</i>)	10.48
Chen Hsien Min	Long position	Personal	14,500,000	0.92

Note: Mr Chen Ying-Chieh has beneficial interest in 149,838,920 shares in the Company through Pushkin Holding Limited, a company incorporated in the British Virgin Islands, in which Mr. Chen Ying-Chieh holds one-third of the equity interests.

In addition to the above, Mr Chen Hsien Min, the Managing Director of the Company, also holds non-voting deferred shares and nominee shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiaries have more than one member.

Save as disclosed above, as at 31 December 2004, none of the directors or chief executive, nor any of their associates (including their spouses and children under 18 years of age), had any interests in or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations as defined by the SFO.

Save as disclosed under the section headed "Share options", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTIONS

Details of the Share Option Scheme adopted on 23 May 2003 are as follows:

i) Purpose

The purpose of the scheme is to provide incentives to the employees, including any executive or non-executive directors and officers of the Company and its subsidiaries, to contribute to the Group and to enable the Group to recruit high-calibre employees and attract or retain human resources that are valuable to the Group.

SHARE OPTIONS *(Continued)*

ii) **Qualifying participants**

Any person being an employee, officer, agent or consultant, including executive and non-executive director, of the Group.

iii) **Maximum number of shares**

The total number of shares which may be issued upon exercise of all options to be granted under the scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the scheme if this will result in such limit exceeded. As at 31 December 2004, the number of shares available for issue in respect thereof is 10,339,238 shares.

iv) **Limit for each participant**

The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

v) **Option period**

The option period within which the shares must be taken up an option shall be determined by the board of directors in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

The board of directors has the authority to determine the minimum period for which an option must be held before it can vest. The scheme itself does not specify any minimum holding period.

vi) **Acceptance and payment on acceptance**

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of grant. A consideration of HK\$1 shall be paid by a participant upon acceptance of the option.

vii) **Subscription price**

The exercise price must be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

Report of the Directors

SHARE OPTIONS (Continued)

viii) Remaining Life of the scheme

The board of directors is entitled at any time within 10 years between 29 May 2003 and 28 May 2013 to offer the grant of an option to any qualifying participants.

Details of the share options outstanding as at 31 December 2004 which were granted under the Share Option Scheme are as follows:

	At 1 January 2004	Number of options Granted during the year	Exercised during the year	At 31 December 2004	Exercise price HK\$	Grant date	Exercisable period
Directors of the Company							
Chen Ying-Chieh	14,500,000	-	14,500,000 (Note 1)	-	0.20	28 July 2003	28 July 2003 to 27 July 2009
Other participants							
Employees	-	80,000,000 (Note 2)	10,000,000 (Note 1)	70,000,000	0.311	5 January 2004	5 January 2004 to 4 January 2006
Chang Wen I (Resigned as chairman and executive director on 22 November 2004)	14,500,000	-	14,500,000 (Note 1)	-	0.20	28 July 2003	28 July 2003 to 27 July 2009

Notes:

- 39,000,000 options were exercised during the year. At the dates immediately before the options were exercised, the weighted average closing market price per share was calculated as HK\$0.68.
- At the date before the options were granted, the market price per share was HK\$0.315.
- The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of the options granted to participants as referred to in (i) to (v) of Rule 17.07 during the period under review. The directors consider it inappropriate to value the share options as a number of critical factors for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save as disclosed under the sections headed "Directors' and chief executive's interests in shares, underlying shares and debentures" and "Share options", the following persons had interests in the shares of the Company which fall to be disclosed to the Company pursuant to Section 336 of the SFO:

Name of shareholder	Interests held	Number of shares held	Percentage	
Lucky Earn International Limited	Long position	Corporate	449,669,995 (Note 1)	28.68
Top Glory Assets Limited	Long position	Corporate	217,692,895 (Note 2)	13.88
Pushkin Holding Limited	Long position	Corporate	149,838,920 (Note 3)	9.56

Notes:

1. Mr Chang Chih-Kai, an Executive Director of the Company, his brother and his two sisters have beneficial interests of 26%, 26% and 24% each respectively in Lucky Earn International Limited, a company incorporated in the British Virgin Islands.
2. Two children of Mr Chen Hsien Min, Managing Director of the Company, have beneficial interests of 50% each in Top Glory Assets Limited, a company incorporated in the British Virgin Islands.
3. Mr Chen Ying-Chieh, Chairman of the Company, and his two brothers each has one-third of the beneficial interests of Pushkin Holding Limited.

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.

MAJOR CUSTOMERS AND SUPPLIERS

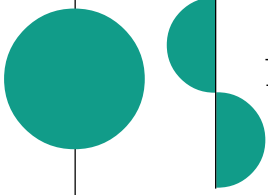
The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 9% and 30%, respectively, of the total turnover of the Group for the year.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 20% and 33%, respectively, of the total purchases of the Group for the year.

None of the directors, their associates or any shareholder of the Company which to the knowledge of the directors owned more than 5% of the Company's share capital, had any beneficial interest in the Group's five largest customers or suppliers.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, which was in force prior to 1 January 2005 except that the independent non-executive directors of the Company were not appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.



Report of the Directors

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2004.

AUDITORS

The accounts for the year ended 31 December 2004 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board

Chen Ying-Chieh

Chairman

Hong Kong, 22 April 2005