

## Report of Directors

The board of directors (the “Board”) of the Company presents this report together with the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2004.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding whilst the principal activities of the subsidiaries are the operation of indoor family entertainment game centres (the “entertainment centres”) as well as manufacturing and selling automobile axles in the People’s Republic of China (the “PRC”).

### AUDITORS

Pricewaterhouse Coopers resigned as auditors of the Company on 12th November, 2002. The Company appointed Grant Thornton as the new auditors of the Company pursuant to the resolution passed by the shareholders at a special general meeting held on 20th January, 2003.

The financial statements have been audited by Grant Thornton who will retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to re-appoint Grant Thornton as auditors of the Company.

### FINANCIAL RESULTS

The results for the Group for the year ended 31st December, 2004, are set out in the financial statements on page 21.

### PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Particulars regarding the principal subsidiaries and joint ventures of the Company and of the Group are set out in note 12 to the financial statements from pages 40 to 43.

### SEGMENT INFORMATION

The segment information for the Group for the year ended 31st December, 2004, are set out in note 3 to the financial statements on pages 34 and 35.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### BUSINESS REVIEW

##### Overview

During the year, the Group’s turnover amounted to approximately HK\$6.76 million, representing a decrease of approximately 60.8% as compared to that of 2003. The decrease is due to the closure of game centers and suspension of production of automobile axles. The Group has recorded an audited loss attributable to shareholders of HK\$40.92 million for the year ended 31st December, 2004, which represent a decrease of approximately 20.4% when compared to 2003. The decrease in loss was mainly attributable to the success in cost saving.

**(a) Game center**

At the beginning of the year under review, the Group was operating four indoor family entertainment game centers in the People's Republic of China (the "PRC"). During the year, the entertainment game centers in Shanghai and Wuxi were closed because of poor performance and expiry of tenancy agreement respectively. Total revenue and loss incurred from the Shanghai and Wuxi entertainment game centers for the year ended 31st December, 2004 were approximately HK\$520,000 and HK\$720,000 respectively. The closure of the entertainment game centers resulted in a significant decrease in turnover to about HK\$1.66 million from HK\$4.68 million in 2003. The recorded loss is decreased by 76.8% from HK\$6.09 million in 2003 to HK\$1.41 million for the year ended 31st December, 2004. This is because the losses due to closure of entertainment game centers has been fully provided and reflected in last year results. The Chinese joint venture partners have taken legal action against the subsidiaries of the Company for compensating their guaranteed profits and legal fees. The Directors believe that the actions will not have any significant impact on the financial position of the Group.

**(b) Automobile axles**

The Group's 51% owned sino-foreign equity joint venture (the "JV") established in the PRC, Shenyang Liao Hua Automobile Axles Company Ltd maintained operations in the first half of 2004 with revenue amounting to approximately HK\$5.1 million. However as the local government reclaimed the land of the site of the JV for redevelopment, the JV needed to relocate to a new site causing a substantially impairment to its fixed assets, hence the JV reported a loss attributable to the Group (after deducting minority interests) of approximately HK\$4.73 million for the year ended 31st December, 2004. Due to the re-allocation of plant, the production is temporarily suspended. The Chinese joint venture partner requested a substantial expansion of the JV, the Group is reviewing and considering the proposal in a view of maximizing the Group's benefit and in the best interest of the Group.

**(c) Investment business**

The Group maintained its position in locating favorable investment projects globally. During the year, the Group managed to reduce its expenses but still recorded a net loss of HK\$34.78 million.

In March 2004, the Group has made an investment of US\$2.75 million in American Phoenix Group ("APG"), which holds a controlling stake in a PRC Company. The PRC Company currently has 14 points of sales and 9 repair centres located in major cities in the PRC and it distributes 15 brands of passenger cars on a non-exclusive basis. The acquisitions would enable the Company to have a foothold in car dealership business in the PRC which the Board intends to further expand and to negotiate distributorship of other quality brands of automobiles. The Group hopes to achieve synergy and economies of scale to strengthen bargaining power with car manufacturers on better pricing and delivery timetable.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group had cash and bank balances of approximately HK\$31.83 million and without any loan liability. Accordingly, the gearing ratio is zero, calculated on the basis of the Group's borrowing over shareholders' fund. The cash flow position of the Group for the year ended 31st December, 2004 is set out and analyzed on page 25.

### CHARGES ON GROUP ASSETS

As at 31st December, 2004, the Group had aggregate banking facilities of HK\$500,000, all of them remained unutilized. The facilities are secured by a time deposit of HK\$0.7 million. There was no other material charges on group assets.

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### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Almost all of the income and expenditure of the Group were denominated in Hong Kong Dollar, Renmibi and United States Dollar. In view of the stability of the exchange rates among these three currencies, the Group has not been subject to exchange rate fluctuation exposure and thus no financial instruments have been adopted for hedging purpose.

### NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

In March 2004, the Group has made an investment of US\$2.75 million in American Phoenix Group (“APG”) which holds a controlling stake in a PRC Company. The PRC Company currently distributes 15 brands of passenger cars.

Save as disclosed above, there was no other new business, material acquisitions and disposals of subsidiaries and associated companies in the financial year under review.

### POST BALANCE SHEET EVENTS

The post balance sheet events for the Group for the year ended 31st December, 2004, are set out in note 29 to the financial statements on page 52.

### LITIGATION

Brief details of legal proceedings for the Group for the year ended 31st December, 2004 are set out in note 28 to the financial statements on page 52.

### HUMAN RESOURCES

The Group had a total of approximately 70 employees as at 31st December, 2004. It has been the Group’s policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group’s salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

### RETIREMENT SCHEME

The Group’s Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in note 26 to the financial statements on page 51.

### PROSPECTS

As the existing businesses of the Group continued to operate at a loss, the Board has been considering to expand the Group’s business in the fast-growing automobile market in the PRC and seeking investment opportunities in capital markets.

The Directors consider that there is substantial room for growth in the dealership of passenger cars in the PRC. With the reduction of car import duty under WTO commitments and more foreign manufacturers are setting up manufacturing facilities in the PRC, the selection available to the Chinese consumers is expected to increase in the next few years. Coupled with the increase in income level, the demand for passenger cars and car ownership are expected to continue to rise. The Board has expanded the Group’s business in the fast-growing automobile market in the PRC. Further to the acquisition of shares of APG in March 2004, the Group is in the process of acquiring all the remaining stake of APG subject to shareholders’ approval. The Board is of the view that the investment in the APG will bring significant benefits to the Group.

### DIVIDEND

The Directors do not recommend the payment of final dividend for year ended 31st December, 2004 (2003: Nil), and the Company did not pay any interim dividend during the year under review.

### PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2004 are set out in note 11 to the financial statements on pages 39 and 40.

### RESERVES

Movements in the reserves of the Group and the Company for the year ended 31st December, 2004 are set out in note 24 to the financial statements on page 49.

### SHARE CAPITAL

The details of issued share capital of the Company for the year ended 31st December, 2004 are set out in note 22 to the financial statements on pages 46 and 47.

### CONTINGENT LIABILITIES

Details of the Group's contingent liabilities are set out in note 25(d) to the financial statements on page 51.

### FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the financial statements on page 54.

### CONNECTED TRANSACTIONS

Significant connected party transactions entered into by the Group during the years ended 31st December, 2004 are disclosed in Note 21 to the financial statements. These transactions also constitute continuing connected transactions under the Listing Rules and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. Brief details of such transactions are as follows:

Transactions between Shenyang Liao Hua Automobile Axles Company Limited (瀋陽遼華汽車車橋有限公司) (“**Shengyang JV**”) and 中車集團瀋陽七四零七工廠 (formerly known as 瀋陽輕型汽車車橋製造廠) (“**7407 Holding**”) (“**Transactions**”):

- (a) the purchase of rear differential axle, driving and driven gears, rear brake assembly, bearings, rear braking drums (“**Components**”) for the manufacture and assembling of automobile axles and related automobile components from 7407 Holding. The aggregate amount of purchase amounted to about RMB5,368,000 (equivalent to about HK\$5,019,000) for the year ended 31st December, 2004; and
- (b) the sale of finished/assembled products to 7407 Holding. The aggregate amount of sales amounted to about RMB5,455,000 (equivalent to about HK\$5,100,000) for the year ended 31st December, 2004.

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Shenyang JV is a 51% indirectly owned subsidiary of the Company and 7407 Holding is the holding company of Shenyang Song Liao Jin Hua Automobile Axles Manufactory Limited (瀋陽松遼金華車橋有限公司) (“**PRC JV Partner**”), the 49% joint venture partner of Shenyang JV. By virtue of its interests in Shenyang JV, the PRC JV Partner and hence 7407 Holding are connected parties to the Company and the Transactions constitute connected transactions of the Company under the Listing Rules.

### Reasons of the Transactions

The operation of Shenyang JV has been suspended in or around June 2000 and was only able to revive its operation in October 2002 with the assistance of 7407 Holding by (a) referring business to the Group without any monetary consideration, (b) sale to the Group the requisite Components for the manufacture and assembling of automobile axles and related automobile components, and (c) purchase from the Group finished/assembled products.

The Directors consider that, by entering into the Transactions, the Group is able to stabilise the costs of production of Shenyang JV, enhance administrative and operational efficiency in the automobile assembly industry. The Transactions also enable the Group to minimize credit control risk which Shenyang JV may face at the start-up period, broaden its income base and bring a better return on the shareholders’ investment in the Company.

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has granted a conditional waiver to the Company for compliance with the disclosure requirements as stipulated under Rule 14.25 of the Listing Rules in respect of the Transactions on each occasion they arise for the period up to 31st December, 2005 (“**Waiver**”). In accordance with the conditions of the Waiver, the Directors (including independent non-executive directors) have reviewed the Transactions and confirm that:

- (a) the Transactions were entered into by the Group in the ordinary and usual course of its business; conducted on normal commercial terms or (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and entered into either in accordance with the terms of the agreement(s) governing the Transactions or, where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (b) that the aggregate amount of each of the categories of the Transactions for the year ended 31st December, 2004 does not exceed the relevant cap amount (being RMB21.60 million (equivalent to about HK\$20.19 million) for the purchase transactions and RMB22.50 million (equivalent to about HK\$21.03 million) for the sale transactions (“**Cap Amount**”).

The auditors of the Company have also reviewed the Transactions and confirmed to the Directors in writing that:

- (a) the Transactions have been approved by the Board;
- (b) the Transactions have been entered into in accordance with the terms of the relevant agreements relating to the Transactions or the Transactions were on terms no less favourable than those available to or, as the case may be, from independent third parties;
- (c) the Transactions are consistent with the pricing policies of the Group; and
- (d) the aggregate amount of each of the categories of the Transactions does not exceed the relevant Cap Amount.

### DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2004 and up to the date of this report are:–

#### *Executive directors*

Mr. Yung Yeung (*Chairman*)  
 Mr. Chunhua Huang (*Deputy Chairman*)  
 Mr. Jun Li (*Chief Executive Officer*)  
 Mr. Wing Tak Law, Jack (*Chief Financial Officer and Company Secretary*)  
 (appointed on 28th September, 2004)  
 Mr. Yuwen Sun  
 Mrs. Chizuko Kubo

#### *Independent non-executive directors*

Mr. Jian Wang  
 Mr. Bangjie He  
 Mr. Ho Yip Lee (appointed on 28th September, 2004)

Mr. Chunhua Huang will retire by rotation in accordance with clause 87(1) and (2) of the bye-laws of the Company and Mr. Wing Tak Law and Mr. Ho Yip Lee, being Directors appointed by the Board pursuant to clause 86(2) of the bye-laws of the Company, will retire at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that the Company had received from each of its independent non-executive directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considered all of the independent non-executive directors to be independent throughout the year.

### SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December, 2004, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the directors of the Company, the following persons had an interest or short position in the shares and underlying shares of the Company ("Shares") which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Note	Number of Shares	Percentage
Sun East LLC	1	945,456,600	49.88%
Pure Shine Limited ("PSL")		162,951,000	8.60%
Brilliance China Automotive Holdings Limited ("BCA")	2	162,951,000	8.60%

#### *Note:*

1. Sun East LLC is a company owned as to 35% by Mr Yung Yeung and 65% by Mr Chunhua Huang and Mr Yuwen Sun as trustees for certain trusts established for the benefit of the children of Mr Yung Yeung.
2. PSL is a wholly-owned subsidiary of BCA. By virtue of BCA's interest in PSL, BCA is deemed to be interested in the Shares held by PSL.



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Save as disclosed above, no person, other than Directors whose interests are set out in the section “Directors’ interests in shares below, had registered an interest or short positions in the share capital or underlying shares of the Company that was required to be recorded under Section 336 of SFO.

### DIRECTORS’ INTERESTS AND SHORT POSITIONS

As a 31st December, 2004, the interests and short positions of the directors and the chief executive of the Company in the share capital of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO were as follow:

Name of Director	Company/name of associated corporation	Nature of interest	Number of ordinary shares/debentures
Yung Yeung	Company	Corporate interest (Note 1)	945,456,600
Yung Yeung	Company	Personal interest (Note 3)	31,570,000
Jun Li	Company	Personal interest (Note 3)	5,400,000
Jun Li	Company	Personal interest (Note 4)	13,540,000
Chunhua Huang	Company	Personal interest (Note 3)	5,400,000
Chunhua Huang	Company	Personal interest (Note 4)	13,540,000
Chunhua Huang	Company	Corporate interest (Note 2)	945,456,600
Yuwen Sun	Company	Personal interest (Note 4)	18,940,000
Yuwen Sun	Company	Corporate interest (Note 2)	945,456,600
Chizuko Kubo	Company	Personal interest (Note 4)	5,000,000

*Notes:*

- All these interests represent long positions. These 945,456,600 Shares (representing 49.88% of the issued share capital of the Company as at 31st December, 2004) are beneficially owned by Sun East LLC, a company which is held as to 35% by Mr Yung Yeung and as to 65% by Mr Chunhua Huang and Mr Yuwen Sun as trustee for certain trusts established for the benefit of the children of Mr Yung Yeung. Mr Yung Yeung is deemed to be interested in the 945,456,600 Shares by virtue of his interest in Sun East LLC.

2. All these interests represent long positions. These 945,456,600 Shares (representing 49.88% of the issued share capital of the Company as at 31st December, 2004) are beneficially owned by Sun East LLC, a company which is held as to 35% by Mr Yung Yeung and as to 65% by Mr Chunhua Huang and Mr Yuwen Sun as trustees for certain trusts established for the benefit of the children of Mr Yung Yeung. Mr Chunhua Huang and Mr Yuwen Sun are deemed to be interested in the 945,456,600 Shares by virtue of their interest in Sun East LLC.
3. Such number of Shares represents the underlying shares of the options granted under the share option scheme of the Company adopted on 15th March, 1995 (“1995 Scheme”), which was terminated pursuant to a resolution in writing of the shareholders of the Company passed on 12th June, 2003 and replaced by the 2003 Scheme (as defined below).
4. Such number of Shares represents the underlying shares of the options granted on 26th January, 2004 under the share option scheme of the Company adopted on 12th June, 2003 (“2003 Scheme”).

In addition to the above, Mr. Jun Li has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed in this report, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as at 31st December, 2004.

### **DIRECTORS’ RIGHTS TO SUBSCRIBE FOR SHARES**

Save as disclosed under the section headed “Directors’ Interests and Short Positions” above, and the section headed “Share Option Scheme” below, at no time during the year ended 31st December, 2004 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.



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### SHARE OPTION SCHEME

The following share options were outstanding under the 1995 scheme and 2003 scheme during the period commencing from 1st January to 31st December, 2004: –

Name or Category of Participant	As at 1st January, 2004	Shares granted during the period	Shares lapsed/ cancelled during the period	As at 31st December, 2004	Date of Grant	Exercise Price	Exercise Period
<b>Directors:</b>							
Yung Yeung	10,000,000	–	–	10,000,000	Note 1	Note 1	Note 1
	21,570,000	–	–	21,570,000	Note 2	Note 2	Note 2
Jun Li	5,400,000	–	–	5,400,000	Note 2	Note 2	Note 2
	–	13,540,000	–	13,540,000	Note 3	Note 3	Note 3
Chunhua Huang	5,400,000	–	–	5,400,000	Note 2	Note 2	Note 2
	–	13,540,000	–	13,540,000	Note 3	Note 3	Note 3
Yuwen Sun	–	18,940,000	–	18,940,000	Note 3	Note 3	Note 3
Chizuko Kubo	–	5,000,000	–	5,000,000	Note 3	Note 3	Note 3
<b>Sub-total</b>	<b>42,370,000</b>	<b>51,020,000</b>	<b>–</b>	<b>93,390,000</b>			
<b>Employees:</b>							
(in aggregate)	4,800,000	–	–	4,800,000	Note 1	Note 1	Note 1
	9,400,000	–	–	9,400,000	Note 2	Note 2	Note 2
	–	37,800,000	19,028,000	18,772,000	Note 3	Note 3	Note 3
<b>Sub-total</b>	<b>14,200,000</b>	<b>37,800,000</b>	<b>19,028,000</b>	<b>32,972,000</b>			
<b>Other eligible persons:</b> (in aggregate)	–	44,000,000	44,000,000	–	Note 3	Note 3	Note 3
<b>Total:</b>	<b>56,570,000</b>	<b>132,820,000</b>	<b>63,028,000</b>	<b>126,362,000</b>			

Notes:–

- These share options were granted on 16th February, 2000 and are exercisable at a subscription price of HK\$0.69 per Share at any time during the period of 10 years from 16th February, 2000 to 15th February, 2010.
- These share options were granted on 2nd November, 2000 and are exercisable at a subscription price of HK\$0.382 per Share at any time during the period of 10 years from 2nd November, 2000 to 1st November, 2010.
- These share options were granted on 26th January, 2004 and are exercisable at a subscription price of HK\$0.160 per Share at any time during the period of 10 years from 26th January, 2004 to 25th January, 2014.

The Board does not consider it appropriate to disclose a theoretical value of the share options granted to the directors and employees of the Company in the previous years because a number of factors crucial for valuation cannot be determined; such factors include the exercise period and the conditions that a share option is subject to. Accordingly, any valuation of the share options based on the various speculative assumptions would not be meaningful and could be misleading to the shareholders.

Brief information on the 1995 Scheme and the 2003 Scheme are as follows:

	The 2003 Scheme	The 1995 Scheme
1) Purpose of the share option scheme	As incentives and rewards to eligible participants for their contribution to the Group and assist the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group	Provide incentives and rewards to eligible participants who contribute to the success of the Group's operations
2) Participants of the share option scheme	<p>a) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries, or any entity (the "Invested Entity") in which any member of the Group holds any equity interest;</p> <p>b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;</p> <p>c) any supplier of goods or services to any member of the Group or any Invested Entity;</p> <p>d) any customer of the Group or any Invested Entity;</p>	Eligible employees including executive directors and employees of the Company and its wholly-owned subsidiaries

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	The 2003 Scheme	The 1995 Scheme	
	<p>e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;</p> <p>f) any shareholder of any member of the Group other than the Company or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;</p> <p>g) any advisor (professional or otherwise) or consultant to the Group relating to business development of the Group or any member of the Group or any Invested Entity; and</p> <p>h) any joint venture partner or business alliance that co-operates with any member of the Group or any Invested Entity in any area of business operation or development.</p>		
3)	Maximum entitlement of each participant under the share option scheme	In any 12-month period, shall not exceed 1% of the shares in issue	Shall not exceed 25% of the maximum aggregate number of shares in the capital of the Company at the time of grant or such other percentage as the Board may determine from time to time
4)	The period within which the shares must be taken up under an option	The Board may in its absolute discretion determine save that such period shall not expire later than 10 years from the date of grant	10 years from the date of grant

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	The 2003 Scheme	The 1995 Scheme	
5)	The minimum period for which an option must be held before it can be exercised	Unless otherwise determined by the Board, no minimum period	At any time after grant and acceptance
6)	The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	Upon acceptance of the option, the grantee shall inform the Company together with HK\$1 by way of consideration for the grant within 21 days from the date of offer	Upon acceptance of the option, the grantee shall inform the Company together with HK\$1 by way of consideration for the grant within 28 days from the date of offer
7)	The basis of determining the exercise price	The exercise price is determined by the Board and being not less than the higher of: <ul style="list-style-type: none"> <li>a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; or</li> <li>b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares for the 5 business days immediately preceding the date of offer for grant which must be a business day; or</li> <li>c) the nominal value thereof</li> </ul>	The exercise price shall not less than the greater of: <ul style="list-style-type: none"> <li>a) 80% of the average closing price of the shares of the Company on the Stock Exchange on the 5 trading days immediately preceding the date of offer of such option; or</li> <li>b) such amount as the Board may from time to time determine subject to the Listing Rules applicable for the time being; or</li> <li>c) nominal amount of the share</li> </ul>
8)	The remaining life of the share option scheme	The scheme remains in force until 12th June, 2013	The scheme was terminated on 12th June, 2003

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Renewal of the 10% share option scheme limit under the 2003 Scheme was approved by the shareholders of the Company on 16th June, 2004. Therefore, the Company can grant share options to subscribe for up to 189,545,100 shares of the Company under the 2003 Scheme. As no share option has been granted under the 2003 scheme since 16th June, 2004, the total number of shares available for issue under the 2003 scheme is 189,545,100 representing 10% of the Company's issued share capital as at the date of this report.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or associated companies was a party and in which any 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

The Company and American Compass Inc., a wholly-owned subsidiary of the Company incorporated in the United States of America, entered into a service contract with Mr. Yung Yeung, a director of the Company, for his office of Chairman of the Company and American Compass Inc. for a period of two years commencing from 1st January, 2003 which shall continue thereafter until terminated by either party by giving the other party one month's written notice. If the employment is terminated by the Company within the said two years' period, the Company shall pay Mr. Yung Yeung an amount equivalent to the salary of the unserved period.

Save as disclosed above, none of the directors of the Company 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 employer within one year without payment of compensation, other than statutory compensations.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the Group's turnover attributable to the five largest customers for the year are as follows: –

#### Turnover

The largest customer	75%
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Excluding the largest customer, the other four largest customers are from the retail sector and the sales contributed by them are insignificant to the Group's turnover.

The percentage of the Group's purchases attributable to the major suppliers for the year are as follows:–

#### Purchases

The largest supplier	98%
The five largest suppliers in aggregate	99%

As far as the Directors are aware, no directors of the Company or any of its subsidiaries, their associates or any shareholders of the Company (who to the directors' knowledge is interested in or owns more than 5 per cent. of the Company's share capital) has any shareholding in the suppliers or customers referred to above.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda.

### CORPORATE GOVERNANCE

The Company complies with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code"), except that the independent non-executive directors were not appointed for specific terms but appointed to their offices for such terms and subject to retirement in accordance with clause 87 of the bye-laws of the Company.

In compliance with the code, the Company has established an Audit Committee and has adopted the terms of reference governing the authority and duties of the Audit Committee.

The Audit Committee has discussed with management and external auditors and reviewed the accounting principles and practices adopted by the Group, internal controls and financial reporting matter, including a review of the audited financial statements for the year ended 31st December 2004.

On behalf of the Board

**Jun Li**

*Director*

28th April, 2005