

## Directors' Report

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2005.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of electronic manufacturing services and the manufacturing and trading of printed circuit boards.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 11 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the	
	Group's total Sales	Purchases
The largest customer	18%	
Five largest customers in aggregate	67%	
The largest supplier		27%
Five largest suppliers in aggregate		73%

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

### FINANCIAL STATEMENTS

The profit of the Group for the year ended 30 June 2005 and the state of the Company's and the Group's affair as at that date are set out in the financial statements on pages 29 to 91.

### DIVIDENDS

The Board recommended the payment of a final dividend of HK\$0.035 (equivalent to approximately RMB0.0371) (2004: HK\$0.035 (equivalent to approximately RMB0.0371)) per share for the year ended 30 June 2005, subject to shareholders' approval at the forthcoming annual general meeting to be held on 23 December 2005, to the shareholders whose names appear on the Register of Members of the Company on 23 December 2005 and will be paid on or around 20 January 2006.

No interim dividend was declared for the six months ended 31 December 2004 (2003: Nil).

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### SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the financial statements.

### TRANSFER OF RESERVES

Profits attributable to shareholders, before dividends, of RMB80,427,000 (2004: RMB81,214,000) have been transferred to reserve.

### DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

As at 30 June 2005, the distributable reserves of the Company available for distribution to shareholders amounted to approximately RMB216,248,000 (2004: RMB217,069,000) computing in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's Articles of Association. This includes the Company's share premium, contributed surplus, share-based compensation reserves and convertible bonds reserve of approximately RMB159,175,000 (2004: RMB159,175,000), RMB46,305,000 (2004: RMB63,654,000), RMB1,453,000 (2004: Nil) and RMB11,743,000 (2004: Nil) respectively, less accumulated losses of approximately RMB2,428,000 (2004: RMB5,760,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business of the Company.

### SUBSIDIARIES

Particulars of the Company's subsidiaries as at 30 June 2005 are set out in note 14 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

### BANKING FACILITIES

Particulars of the banking facilities of the Company as at 30 June 2005 are set out in note 22 to the financial statements.

### CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB209,440 (2004: RMB177,612).

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### COMMITMENTS AND CONTINGENT LIABILITIES

Particulars of the commitments and contingent liabilities of the Group as at 30 June 2005 are set out in notes 30 and 31 respectively to the financial statements.

### SHARE OPTION SCHEME

At the extraordinary general meeting of the Company held on 9 January 2003, an ordinary resolution was passed to adopt a new share option scheme (the "2003 Scheme") in substitution for and to the exclusion of the share option scheme adopted by the Company on 8 May 2001 (the "2001 Scheme").

No option has been granted by the Company under the 2001 Scheme since its adoption and up to its termination.

#### Summary of the 2003 Scheme

(a) *Purpose of the 2003 Scheme*

The purpose of the 2003 Scheme is to provide incentives and rewards to Eligible Participants (as defined hereinafter) who contribute to the success of the Group.

(b) *Participants of the 2003 Scheme*

Pursuant to the 2003 Scheme, the Board may offer eligible participants (being employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries) ("Eligible Participants") options to subscribe for such number of shares in the Company.

(c) *Total number of shares available for issue under the 2003 Scheme*

The total number of shares which may be issued upon exercise of all Options to be granted under the 2003 Scheme must not in aggregate exceed 40,262,500 shares, representing 10% of the shares in issue as at the adoption date. The maximum number of shares to be issued upon the exercise of all outstanding Options granted and yet to be exercised under the 2003 Scheme must not in aggregate exceed 30% of the relevant shares of the Company in issue from time to time.

As at 30 June 2005, a total of 51,000,000 Options have been granted since the adoption of the 2003 Scheme. With a total of 8,000,000 Options exercised, 8,000,000 Options lapsed, 3,000,000 Options cancelled, and 32,000,000 Options remained outstanding, representing approximately 6.84% of the total issued number of shares of the Company.

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(d) *Maximum entitlement of each participant*

The maximum number of shares in respect of which Options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time. Any further grant of Options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting.

(e) *Option period*

Option may be exercised after it has vested at any time during the year to be notified by the Board at the time of the grant of the option but shall end in any event not later than 10 years from the offer date, subject to the provisions for early termination of the 2003 Scheme.

(f) *Payment on acceptance of option*

Options granted must be taken up within 21 days from the offer date, upon payment of HK\$1.00 per grant.

(g) *Basis of determining the subscription price*

The subscription price per share under the 2003 Scheme is determined by the Board, save that such price must not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer to grant option; and (c) the nominal value of the share of the Company.

(h) *Remaining life of the 2003 Scheme*

The 2003 Scheme will remain valid until 8 January 2013.

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### Share options

The following table discloses movements in the Company's share options of the 2003 Scheme during the year:

Name or category of participant	Date of grant	Outstanding as at 1 July 2004	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 30 June 2005	Exercisable period	Exercise price per share HK\$	Market value per share at date of grant HK\$	Options value HK\$
<b>(a) Directors</b>											
Lin Wan Qaing	17 December 2004	—	4,000,000	—	—	—	4,000,000	17 December 2004 to 17 December 2005	0.89	0.88	176,422
Chen Yan Shun	17 December 2004	—	2,500,000	—	—	—	2,500,000	17 December 2004 to 17 December 2005	0.89	0.88	110,263
Liu Zhao Cai	17 December 2004	—	2,500,000	—	—	—	2,500,000	17 December 2004 to 17 December 2005	0.89	0.88	110,263
Tong Yiu On	17 December 2004	—	2,500,000	—	—	—	2,500,000	17 December 2004 to 17 December 2005	0.89	0.88	110,263
Xiang Song	17 December 2004	—	2,500,000	—	—	—	2,500,000	17 December 2004 to 17 December 2005	0.89	0.88	110,263
<b>(b) Eligible employees</b>	17 December 2004	—	18,000,000	—	(3,000,000)	(1,000,000)	14,000,000	17 December 2004 to 17 December 2005	0.89	0.88	617,475
<b>(c) Consultants</b>	27 April 2005	—	4,000,000	—	—	—	4,000,000	27 April 2005 to 27 April 2008	1.172	0.86	136,366
<b>Total</b>		—	36,000,000	—	(3,000,000)	(1,000,000)	32,000,000				1,371,315

### RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the year ended 30 June 2005 are set out in note 28 to the financial statements.

### CONNECTED TRANSACTIONS

On 1 February 1999, the Group entered into a lease agreement with Ms. He Yu Zhu, the spouse of Mr. Lin Wan Qaing, pursuant to which the Group agreed to pay a monthly rental of RMB35,200 in respect of the Group's occupation of 15 level, Zhong Mei Building, No. 107 Gu Tian Road, Fuzhou City, Fujian Province, PRC for a term of five years commencing on 1 February 1999 and the lease agreement has been extended to 30 January 2005 with a revised monthly rental of RMB28,575. In the opinion of the independent non-executive Directors of the Company, the rental is based on normal commercial terms and is conducted in the ordinary and usual course of business of the

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Group. This transaction constitutes a de minimus on-going connected transaction in accordance with Rule 14.24(5) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

As at 30 June 2005, the Group had an amount due to Fujian Furi Container Freight Transport Company, which is owned by Fujian Furi Group Company (the holding company of Fujian Furi Electronics Co., Ltd, a minority shareholder of a PRC subsidiary) of approximately RMB31,000 (2004: RMB428,000), arising from transportation fee charged for prior years (2004: RMB319,000). The transportation charges are based on normal commercial terms and are conducted in the ordinary and usual course of business of the Group.

Cash advances in aggregate amount of RMB1,000,000 was given by a company of which Ms. He Yu Zhu is a director during the year ended 30 June 2005. The amount due to this connected party is unsecured, non-interest bearing and repayable on demand. No repayment has been made subsequently to the balance sheet date.

### DIRECTORS

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

#### Executive Directors

Mr. Lin Wan Qaing (*Chairman*)  
Mr. Chen Yan Shun (*Vice-chairman*) (appointed on 17 September 2004)  
Mr. Liu Zhao Cai (*Vice-chairman*)  
Mr. Xiang Song  
Mr. Tong Yiu On

#### Independent Non-executive Directors

Mr. Pan Chang Chi  
Mr. Cai Xun Shan  
Mr. Cheung Chuen (appointed on 30 September 2004)

In accordance with clauses 87(1) and 87(2) of the Company's articles of association, Mr. Liu Zhao Cai and Mr. Xiang Song will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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### DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors listed below has entered into a service agreement with the Company for an initial fixed term of one year, except for service agreement of Mr. Lin Wan Qaing, Mr. Xiang Song and Mr. Tong Yiu On, the initial fixed term of which is three years. The commencement dates of the agreements with each of the executive Directors are as follows:

Mr. Lin Wan Qaing	8 May 2004
Mr. Chen Yan Shun	17 September 2005
Mr. Liu Zhao Cai	22 April 2005
Mr. Xiang Song	8 May 2004
Mr. Tong Yiu On	18 December 2002

In all cases, the service agreements shall continue after their respective expiry dates unless and until terminated by either party giving the other not less than six months prior written notice after the expiration of the said initial fixed term.

Save as disclosed above, none of the Directors of the Company has a service agreement 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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for the Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

#### Long positions in the shares of the Company

Name	Capacity	Type of interests	Number of shares	Number of underlying shares (Note)	Total interest	Approximate % of the issued share capital
Lin Wan Qaing	Beneficial owner	Personal	245,267,780	4,000,000	249,267,780	53.31
Chen Yan Shun	Beneficial owner	Personal	—	2,500,000	2,500,000	0.53
Liu Zhao Cai	Beneficial owner	Personal	—	2,500,000	2,500,000	0.53

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Name	Capacity	Type of interests	Number of shares	Number of underlying shares (Note)	Total interest	Approximate % of the issued share capital
Xiang Song	Beneficial owner	Personal	—	2,500,000	2,500,000	0.53
Tong Yiu On	Beneficial owner	Personal	—	2,500,000	2,500,000	0.53

Note: Options granted to the respective Directors on 17 December 2004.

Save as disclosed above, as at 30 June 2005, none of the Directors nor the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.



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### SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2005, according to the register of members kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity (other than the Directors or chief executives of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

#### Long positions in the shares of the Company

Name	Capacity	Number of shares	Approximate percentage of the issued share capital
FMR Corporation	Investment manager	23,448,000	5.01

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 30 June 2005.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the sections "Share Option Scheme" and "Directors' interests and short positions in shares, underlying shares and debentures" above, at no time during the year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements, there was no contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

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### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

None of the Directors or the management shareholders or the substantial shareholders of the Company, or any of their respective associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received from each of its independent non-executive Directors written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. Based upon the said confirmations, the Company considers that Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen are independent.

### **MANAGEMENT CONTRACT**

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the 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 92 of the annual report.

### **CORPORATE GOVERNANCE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the accounting period for the year ended 30 June 2005, in compliance with the Code of Best Practices as set out in the then Appendix 14 to the Listing Rules in force prior to 1 January 2005, except that independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

### **MODEL CODE**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year under review.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### AUDIT COMMITTEE

The Company has established an audit committee since 8 May 2001 with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The duties of the audit committee include reviewing the Company's annual reports and interim reports and providing advice and comments thereon to the Directors. The audit committee is also responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

As at the date of this report, the audit committee comprises three independent non-executive Directors, namely, Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. During the period from 28 September 2004 to the date of this report, the audit committee has met twice to review the interim and annual results of the Group.

### PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital are held by the public at all times.

### AUDITORS

On 21 July 2005, CCIF CPA Limited ("CCIF") who were reappointed as the Company's auditors at the annual general meeting on 16 November 2004 tendered their resignation. Consequently, KPMG were appointed as auditors of the Company by the Board on 26 July 2005 to fill the vacancy created by the resignation of CCIF.

The financial statements for the years ended 30 June 2003 and 2004 were audited by CCIF. The financial statements for the year ended 30 June 2005 were audited by KPMG. Save as disclosed above, there has not been any change of auditors during the past three years.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**Lin Wan Qaing**

*Chairman*

Hong Kong, 18 October 2005