

# REPORT OF THE DIRECTORS

The directors of the Company are pleased to present their report and the audited financial statements of the Company and of the Group for the year ended 30 September 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of its principal activities of the subsidiaries are set out in note 14 to the financial statements. There was no significant changes in the nature of the Group's principal activities during the year.

## SEGMENT INFORMATION

Details of the segment information of the Group for the year ended 30 September 2005 are set out in note 5 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 30 September 2005 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 21 to 62.

During the year under review, the Board has declared and paid an interim dividend of HK1.1 cent per share.

The Board has resolved not to declare a final dividend for the year ended 30 September 2005.

## BONUS ISSUE OF SHARES

The Board has resolved to recommend a bonus issue of shares, which will be made on the basis of 1 share, credited as fully paid, for every 20 existing shares then held. Through the issuance of bonus shares, the Group intended to encourage and offer its shareholders the opportunity to share the prosperous growth of the Group in the long run and it will provide the Company with a wider capital base and therefore increase the marketability of the shares.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in the Company's share capital, share options and warrants during the year ended 30 September 2005, together with the reasons therefor, are set out in notes 24 and 25 to the financial statements.

Details of the Company's share option scheme are set out in note 25 to financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

# REPORT OF THE DIRECTORS

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

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

## **RESERVES**

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 26 to the financial statements and the consolidated statement of changes in equity on pages 23 and 24 of the annual report.

## **DISTRIBUTABLE RESERVES**

At 30 September 2005, the Company had distributable reserves of approximately HK\$277,031,000. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately HK\$267,733,000 as at 30 September 2005, is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

## **MAJOR CUSTOMERS AND SUPPLIERS**

During the year under review, sales to the Group's five largest customers and the Group's largest customer accounted for approximately 19.3% and 6.4%, respectively, of the Group's total sales for the year.

Purchases from the Group's five largest suppliers and the Group's largest supplier accounted for approximately 32.0% and 9.0%, respectively, of the Group's total purchases for the year.

Neither the directors of the Company, any of their associates nor any shareholders (which to the best knowledge of the directors who owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

### Executive directors

Mr. Cai Zhen Rong (*Chairman*)

Mr. Cai Zhen Yao

Mr. Cai Zhen Ying

Mr. Cai Yang Bo

Mr. Choi Wing Toon

Mr. Mak Shiu Chung, Godfrey

### Independent non-executive directors

Ms. Choy So Yuk

Mr. Lawrence Gonzaga

Mr. Wong Siu Hong

In accordance with Article 108 of the Company's articles of association, Mr. Choi Wing Toon and Mr. Lawrence Gonzaga will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the directors of the Company are set out on pages 18 to 19 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, excluding Mr. Mak Shiu Chung, Godfrey ("Mr. Mak"), has entered into a service contract with the Company for a term of three years commencing from 1 August 2002, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Mr. Mak has entered into a service contract with the Company without specific terms of office, and is subject to the provisions for retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association, which may be terminated by either party giving not less than three month's notice in writing to the other party.

Each of the independent non-executive directors has entered into a service contract with the Company without specific terms of office and is subject to the provisions for retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

# REPORT OF THE DIRECTORS

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has 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 director of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during or at the end of the year.

## 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 in existence during the year.

## CONNECTED TRANSACTIONS

There were no transactions which should be disclosed in the annual report as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2005, the interests of the directors or chief executives of the Company or their respective associates in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be maintained under Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") in the Listing Rules were as follows:

### Long positions

#### Ordinary shares of HK\$0.01 each of the Company

| Director          | Capacity         | Type of interest | Number of shares held | Approximate percentage of shareholding in the Company |
|-------------------|------------------|------------------|-----------------------|---|
| Mr. Cai Zhen Rong | Beneficial owner | Personal         | 406,800,000           | 52.52%  |

Save as disclosed above, as at 30 September 2005, none of the directors and chief executives of the Company or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be maintained under Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code in the Listing Rules.

# REPORT OF THE DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings “Directors’ and chief executives’ interests in shares or short positions in shares and underlying shares” and “Share option scheme”, at no time during the year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SHARE OPTION SCHEME

Particulars of the Company’s share option scheme (the “Scheme”) and other details are set out in note 25 to the financial statements. No share option has been granted or outstanding during the year.

As at the date of this report, the total number of the Company’s shares available for issue under the Scheme is 67,200,400 shares, being approximately 8.7% of the issued share capital of the Company.

To enhance the transparency of the status in relation to the granting of share options of the Company, on 19 August 2003, the Company made an announcement to the public that it would make announcements to inform the shareholders promptly every time when the directors approve granting of any further share options.

## SUBSTANTIAL SHAREHOLDERS

So far as known to the directors or chief executives of the Company, as at 30 September 2005, the Company has not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to date of this report, no directors of the Company or their respective associates (as defined in the Listing Rules) are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

## POST BALANCE SHEET DATE EVENTS

Details of the significant post balance sheet date events of the Group are set out in note 31 to the financial statements.

# REPORT OF THE DIRECTORS

## CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 to the Listing Rules (which was in force prior to 1 January 2005 and remains applicable for the accounting periods commencing before 1 January 2005) throughout the year except that all of the independent non-executive directors of the Company, namely, Ms. Choy So Yuk, Mr. Lawrence Gonzaga and Mr. Wong Siu Hong, and an executive director, namely, Mr. Mak Shiu Chung, Godfrey are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s articles of association.

The Code was replaced by the Code on Corporate Governance Practices (the “CG Code”) which has become effective for accounting periods commencing on or after 1 January 2005 (the internal control section would become effective from 1 July 2005). Appropriate actions are being taken by the Company for complying with the CG Code.

On 25 January 2006, the Board established a remuneration committee, comprising three independent non-executive directors of the Company, Mr. Lawrence Gonzaga, as Chairman, Ms. Choy So Yuk and Mr. Wong Siu Hong, with written terms of reference. The terms of reference of the audit committee of the Company were revised to align with the provisions of the CG Code and would become effective for accounting periods commencing on or after 1 January 2005.

## MODEL CODE

The Company has adopted the Model Code as 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 for the year under review.

## AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company. During the year, two regular meetings of the audit committee have been held. The audited financial statements of the Company for the year ended 30 September 2005 have been reviewed by the audit committee.

## PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the directors of the Company, at least 25% of the Company’s issued share capital were held by members of the public as at 25 January 2006 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained).

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## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors the written confirmation of his/her independence pursuant to rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers Ms. Choy So Yuk, Mr. Lawrence Gonzaga and Mr. Wong Siu Hong to be independent.

## AUDITORS

RSM Nelson Wheeler were appointed as auditors of the Company on 18 September 2003 to fill the casual vacancy so arising upon the resignation of Ernst & Young as auditors of the Company. Apart from the foregoing, there have been no other changes to the auditors of the Company since 3 January 2002, being the date of incorporation of the Company.

The accompanying financial statements for the years ended 30 September 2003, 2004 and 2005 were audited by RSM Nelson Wheeler who retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

**Cai Zhen Rong**

*Chairman*

Hong Kong, 25 January 2006