



## Directors' Report

The Directors are pleased to present to the shareholders their annual report and audited financial statements of the Company and of the Group for the financial year ended 30 April 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investments holding. The activities of its subsidiaries are set out in note 16 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results for the year ended 30 April 2006 are set out in the consolidated income statement on page 37.

The Board has resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on 28 September 2006 (the "2006 AGM") a final dividend of HK\$0.062 (approximately RMB0.064) (2005: HK\$0.038 (approximately RMB0.039) per share to be paid on 9 October 2006 to those shareholders whose names appear on the register of members of the Company on 28 September 2006. Taking into account of the interim dividend of HK\$0.038 per share (2005: HK\$0.028) and the proposed final dividend, total dividends for the year will amount to HK\$72,984,000 (approximately RMB75,173,000) (2005: HK\$48,015,000 (approximately RMB50,066,000)).

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 22 September 2006 to Thursday, 28 September 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and to attend the 2006 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 21 September 2006.

Holders of the 2.125% convertible bonds (the "Bonds") of the Company should lodge the conversion notice together with the relevant document evidenced the title of the Bonds to the conversion agent of the Bonds not later than 4:00 p.m. on Friday, 15 September 2006 in order to qualify for the proposed final dividend and to attend the 2006 AGM.



## Directors' Report

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

### RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 40 and note 30 to the financial statements respectively.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

### DISTRIBUTABLE RESERVES

Reserves of the Company at 30 April 2006 available for distribution amounted to RMB638,245,000. The Company share premium account and contributed surplus, in the amount of RMB300,627,000 and RMB294,402,000 respectively are also available for distribution to shareholders, subject to condition that the Company cannot declare or pay a dividend, or make a distribution of share premium and contributed surplus if (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

### PRE-EMPTIVE RIGHT

There are no pre-emptive provisions under the Company's Bye-Laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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



## Directors' Report

### DIRECTORS

The Directors of the Company during the year and up to the date of this Report were:

#### *Executive Directors*

Mr. Sun Shao Feng (*Chairman and Managing Director*)

Mr. Kung Sze Wai

Mr. Leung Kwok Fai Ben Rich

Mr. Huang Hua (resigned on 20 January 2006)

#### *Independent Non-executive Directors*

Mr. Hu Ji Rong

Mr. Lin Chuan Bi

Mr. Zheng Baodong (appointed on 20 January 2006)

Ms. Hu Bao Zheng (resigned on 20 January 2006)

In accordance with Bye-law 87(1) of the Bye-Laws, Messrs. Sun Shao Feng and Leung Kwok Fai Ben Rich shall retire from office as Directors by rotation at the 2006 AGM and being eligible, offer themselves for re-election.

In accordance with Bye-law 86(2) of the Bye-Laws, Mr. Zheng Baodong, being Director appointed after the 2005 annual general meeting of the Company, shall retire and, being eligible, offers himself for re-election at the 2006 AGM.

### INDEPENDENCE CONFIRMATION

The Company received annual confirmation of independence, from each of independent non-executive Directors pursuant to Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive Directors are independent.

### DIRECTORS' SERVICE AGREEMENTS

Each of Mr. Sun Shao Feng, Mr. Leung Kwok Fai Ben Rich and Mr. Kung Sze Wai entered into a service agreement with the Company on 20 December 2003 for an initial term of three years commenced on 13 January 2004, the date of commencement of listing of the shares of the Company on the Stock Exchange and shall continue thereafter the expiration of the said three years term unless and until terminated by either party giving to the other not less than six months' notice in writing. These Directors are entitled to annual remuneration of HK\$1,200,000 (approximately RMB1,272,000) in aggregate and they are also entitled to participate any bonus plan to be determined by the Board absolutely.

Save as disclosed above, none of the Directors proposed for re-election at the AGM has unexpired service agreement which is determinable by the Company within one year without payment of compensation, other than statutory compensation.



## Directors' Report

### PROFILES OF DIRECTORS AND SENIOR EXECUTIVES

Profiles of Directors and Senior Executives of the Group are set out on pages 23 to 26.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 April 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any 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 under section 352 of the SFO or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

#### Interests and short positions in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Long position/ short position	Percentage Number of ordinary shares	of issued share capital
Mr. Sun Shao Feng	Beneficial owner	Long position	7,200,000 (Note 1)	0.98%
	Interest of controlled corporation	Long position	405,219,000 (Note 2)	55.41%

Notes:

- These 7,200,000 shares are derived from the interest in 7,200,000 share options granted by the Company, details of which are set out below; and
- These 405,219,000 ordinary shares of the Company are held through Capital Mate Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Sun Shao Feng.



## Directors' Report

### **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)**

#### **Interests in share options**

The Company adopted a share option scheme (the "Scheme") on 12 December 2003. The purpose of the Scheme is to enable the Board to grant options to selected participants (as set out in the Prospectus of the Company dated 31 December 2003) as incentives or rewards for their contributions to the Group. The principal terms of the Scheme are as follows:

- (i) The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed ten (10) per cent. of the shares in issue on the adoption date of the Scheme, i.e. 12 December 2003 unless the Company obtains a fresh approval from its shareholders, and which must not aggregate exceed thirty (30) per cent. of the shares in issue from time to time.
- (ii) The total number of shares in respect of which options may be granted to each eligible participant in any 12-month period must not exceed one (1) per cent. of the issued share capital of the Company for the time being.
- (iii) The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.
- (iv) An option may be accepted by an eligible participant within 21 days from the date of grant of the option. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant of the option.
- (v) Subject to the discretion of the Board who may impose restrictions on the exercise of the option, an option may be exercised at any time.
  - (a) in respect of option holders other than suppliers and customers, such period shall commence one (1) year after the date of grant and shall expire on the earlier of the last day of (i) a ten (10) years period from the date of grant and (ii) the expiration of the Scheme; and
  - (b) in respect of option holders who are suppliers and customers, such period shall commence on the date of grant and expire one (1) year thereafter.



## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

#### Interests in share options (Continued)

(vi) The Scheme will remain valid for a period of 10 years commencing on 12 December 2003.

Details of the share options granted to the Directors during the year ended 30 April 2006 under the Scheme are as follows:

Name of Director	Number of share options				Exercise price (HK\$)	Date of	
	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 April 2006		Grant	Exercise Period
Mr. Sun Shao Feng	7,200,000	–	–	7,200,000	2.05	15 Dec 2005	15 Dec 2006 to 11 Dec 2013
Mr. Kung Sze Wai	7,200,000	–	–	7,200,000	2.05	15 Dec 2005	15 Dec 2006 to 11 Dec 2013

Save as disclosed above, none of the Directors, chief executives of their associates had any interests and short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

Other than as disclosed under the headings "Directors' and Chief Executives' Interests in Securities" above, at no time during the year was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) 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 corporation.



## Directors' Report

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SECURITIES

As at 30 April 2006, so far as is known to the Directors, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

#### Interests and short positions in shares and underlying shares of the Company

Name	Capacity	Long position / short position	Number of ordinary shares	Percentage of issued share capital
Kent C. McCarthy (Note 1)	Interest of controlled corporation	Long position	65,065,500	8.90%
Jayhawk China Fund (Cayman), Ltd. (Note 1)	Investment Manager	Long position	65,065,500	8.90%
Cheah Cheng Hye (Note 2)	Interest of controlled corporation	Long position	58,572,000	8.01%
Value Partners Limited (Note 2)	Investment Manager	Long position	58,572,000	8.01%
Lindsay William Ernest Cooper (Note 3)	Interest of controlled corporation	Long position	41,064,000	5.62%
Arisaig Greater China Fund Limited (Note 3)	Beneficial owner	Long position	41,064,000	5.62%
Arisaig Partners (Mauritius) Limited (Note 3)	Investment Manager	Long position	41,064,000	5.62%

Notes:

1. Mr. Kent C. McCarthy is deemed to be interested in these 65,065,500 ordinary shares of the Company which are held by Jayhawk China Fund (Cayman), Ltd., a company incorporated in the Cayman Islands and is controlled by Mr. Kent C. McCarthy.
2. Mr. Cheah Cheng Hye is deemed to be interested in these 58,572,000 ordinary shares of the Company which are held by Value Partners Limited, a company incorporated in the British Virgin Islands and is controlled by Mr. Cheah Cheng Hye.
3. Arisaig Greater China Fund Limited ("AGCFL") is a wholly-owned subsidiary of Arisaig Partners (Mauritius) Limited ("AP(M)"), which in turn is wholly-owned by Arisaig Partners (BVI) Ltd. ("AP(BVI)"), AP(BVI) is a wholly-owned subsidiary of Arisaig Partners (Holdings) Ltd. ("APHL") of which 33.33% is held by Madeleine Ltd. ("Madeleine"). Madeleine is wholly-owned by Mr. Lindsay William Ernest Cooper, AP(M), AP(BVI), APHL, Madeleine and Mr. Lindsay William Ernest Cooper are deemed to be interested in 41,064,000 ordinary shares of the Company held by AGCFL.

Save as disclosed above, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 336 of the SFO.



## Directors' Report

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. All the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

### DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Apart from the information disclosed under the heading "Connected Transactions" below, there was no other contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year, and in which a Director had, whether directly or indirectly, a material interest, nor there was any other contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.

### DIRECTOR'S INTERESTS IN COMPETING BUSINESS

During the year ended 30 April 2006, none of the Directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the Group's business.

### CONNECTED TRANSACTIONS

Significant related party transactions which also constitute connected transactions under the Listing Rules, entered into by the Group during the year are disclosed in note 33 to the financial statements. Other than disclosed therein, there was no other connected transaction of the Company and the Group during the year ended 30 April 2006.

### RETIREMENT SCHEME ARRANGEMENT

Particulars of the Group's retirement scheme are set out in note (12) to the financial statements.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentage of purchases attributable to the Group's five largest suppliers in the year was, as last year, less than 30% of the Group's purchases.

The aggregate percentage of turnover attributable to the Group's five largest customers was approximately 22% of the Group's turnover and the percentage of turnover attributable to the Group's largest customer was approximately 8% of the Group's turnover for the year.

None of the Directors, their associates or shareholders, who to the knowledge of the Directors own more than 5% of the Company's share capital, had an interest in any of the five largest customers.





## Directors' Report

### **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year and up to the date of this Report.

### **AUDIT COMMITTEE**

The Company established an audit committee (the "Audit Committee") on 12 December 2003, and currently comprising of three independent non-executive directors, Mr. Hu Ji Rong, Mr. Lin Chuan Bi and Mr. Zheng Baodong. The primary duties of the Audit Committee are to review the financial reporting process of the Group. During the year ended 30 April 2006, the Audit Committee held 2 meetings with all members present to review with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters. In addition, the Audit Committee has reviewed the final results of the Group for the year ended 30 April 2006.

### **SUBSEQUENT EVENTS**

There is no significant event subsequent to the balance sheet date as at 30 April 2006.

### **AUDITORS**

A resolution will be proposed at the 2006 AGM to re-appoint CCIF CPA Limited as auditors.

On behalf of the Board

**Sun Shao Feng**

*Chairman*

Hong Kong, 28 August 2006

