

## DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 30th June, 2006.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 22 to the consolidated financial statements.

### RESULTS

The results of the Group for the year ended 30th June, 2006 are set out in the consolidated income statement on page 20.

The directors do not recommend the payment of a dividend.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30th June, 2006, the five largest customers of the Group together accounted for approximately 83% of the Group's revenue and the aggregate purchases attributable to the Group's five largest suppliers were 99%. The largest customer accounted for approximately 73% of the Group's revenue and the largest supplier accounted for approximately 55% of the Group's purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 11 to the consolidated financial statements.

### SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 18 to the consolidated financial statements.

### DISTRIBUTABLE RESERVES OF THE COMPANY

At the balance sheet date, the Company had no reserves available for distribution to shareholders (2005: Nil).

## DIRECTORS

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

### Executive directors

Ms. Zhou Liping (*Chairman*)

Ms. Guan Mei (*Deputy Chairman*)

Mr. Huang Flynn Xuxian

### Independent non-executive directors

Mr. Shea Chun Lok, Quadrant

Mr. Ngai Chi Yung

Mr. Chan Wai Kwong, Peter (appointed on 17th July, 2006)

Mr. Chan Yiu Kwong (resigned on 17th July, 2006)

In accordance with Clauses 91 and 99(B) of the Company's Bye-laws, Mr. Chan Wai Kwong, Peter, Ms. Guan Mei and Mr. Ngai Chi Yung will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the above clauses.

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

At 30th June, 2006, the interests of the directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### Long positions

Ms. Guan Mei was interested in 13,957,000 shares of the Company, representing approximately 16.76% of the issued share capital of the Company as at 30th June, 2006. These shares were held by Aster Well Limited, a company incorporated in the British Virgin Islands and is beneficially owned by Ms. Guan Mei.

Other than as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares in, or debentures of, the Company or any of its associated corporation as at 30th June, 2006.

### SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 21 to the consolidated financial statements.

### ARRANGEMENTS TO PURCHASE SHARES

At no time during the year was the Company or its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or 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.

## SUBSTANTIAL SHAREHOLDERS

At 30th June, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

### Long positions

Name	Number of shares	Percentage of the issued share capital of the Company
Pioneer Wealth Limited ( <i>Note 1</i> )	20,297,875	24.37%
Aster Well Limited ( <i>Note 2</i> )	13,957,000	16.76%

*Note 1:* The entire share capital of Pioneer Wealth Limited is beneficially owned by Lucy Du and Helen Zhang, independent third parties and not connected persons of the Company.

*Note 2:* The entire share capital of Aster Well Limited is beneficially owned by Ms. Guan Mei.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company at 30th June, 2006.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

## EMOLUMENT POLICY

The emolument policy of the employee of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## DIRECTORS' REPORT

### SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30th June, 2006.

### CORPORATE GOVERNANCE

The Company is committed to maintaining and improving the quality of corporate governance so to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value.

In the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules during the period under review, except for the certain deviation disclosed herein:

### BOARD OF DIRECTORS

The Board of Directors of the Company currently consists of six members: three executive directors, namely, Ms Zhou Liping, Ms Guan Mei, Mr Huang Flynn Xuxian; and three independent non-executive directors, namely, Mr Chan Wai Kwong, Peter, Mr Ngai Chi Yung and Mr Shea Chun Lok, Quadrant, who has the professional and accounting qualifications required by the Listing Rules. The function of the Board is to formulate corporate strategy and business development. The Board has met regularly during the year to approve acquisition and disposal, connected transactions, placing of shares and monitoring the financial performance of the Group in pursuit of its strategic goals. The chairmanship of the Board of the Company is elected at each Board meeting. Control and day to day operation of the Company is delegated to the Chief Executive Officer and the management of the Company.

There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship. The Company has received from each of its independent non-executive director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considers the independence non-executive directors to be independent. According to the code provisions, the non-executive directors should be appointed for a specific term, subject to re-election. All directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles, and the terms of their appointment will be reviewed when they are due for re-election. As such, the Board considers that sufficient measures are in place to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

Attendance of individual directors during the year:

<b>Composition of the Board</b>	<b>Meetings Attended/Held</b>
Ms Zhou Liping	14/14
Ms Guan Mei	5/14
Mr. Huang Flynn Xuxian	3/14
Mr Shea Chun Lok, Quadrant	11/14
Mr Chan Yiu Kwong (resigned on 17th July, 2006)	5/14
Mr. Ngai Chi Yung	5/14
Mr Chan Wai Kwong, Peter (appointed on 17th July, 2006)	0/14

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## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code A.2.1 of CG Code provides, inter alia, that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Company does not officially have a position of Chief Executive Officer. However, Ms. Zhou Liping has been assuming the roles of both the Chairman and Chief Executive Officer of the Company. The Board intends to maintain this structure in the future as it believes that it would provide the Group with strong and consistent leadership and allow the Group's business operations, planning and decision making as well as execution of long-term business strategies to be carried out more effectively and efficiently. Nonetheless, the Board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Code A.2.1 of CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company have not been appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with the By-laws of the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## DIRECTORS' REPORT

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the directors (the "Mode Code"). Having made specific enquiry of all directors, the Company has confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions during the year.

### BOARD COMMITTEES

The Board has established two board committees to strengthen its functions and corporate governance practices, namely, Audit Committee and Remuneration Committee. The Audit Committee and the Remuneration Committee perform their specific roles in accordance with their respective written terms of reference.

#### Audit Committee

The Company's Audit Committee is composed of three independent non-executive directors, currently, Mr. Shea Chun Lok, Quadrant (Chairman of the Audit Committee), Mr. Chan Wai Kwong, Peter, and Mr. Ngai Chi Yung. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Audit Committee is responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements, any issues arising from the audit and any other auditors may wish to raise and review of the Company's internal control and risk management.

Summary of work done in the year: Reviewed the financial statements for the year ended 30th Jun 2005 and for the six months ended 31st December, 2005, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company and the internal control system and risk management.

The Group's results for the year ended 30th June, 2006 have been reviewed by the Company's Audit Committee.

The Audit Committee held two meetings during the year with an attendance rate of 100%.

### Remuneration Committee

The Company's Remuneration Committee is composed of three independent non-executive directors, currently, Mr. Shea Chun Lok, Quadrant, Mr. Chan Wai Kwong, Peter (Chairman of the Remuneration Committee) and Mr. Ngai Chi Yung. The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Remuneration Committee is responsible of developing remuneration policies and in overseeing remuneration packages of the directors whether the emoluments offered are appropriate to the duties and performance of the respective individuals concerned. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no director is involved in decision of his own remuneration.

Summary of work done during the year: Reviewed and approved the remuneration of directors according to their respective responsibilities, expertise and performance. The Remuneration Committee held one meeting during the year with an attendance rate of 100%.

### AUDITORS' REMUNERATION

The Group was charged HK\$371,000 for auditing services by the auditors of the Group in respect of the year ended 30th June, 2006.

### INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions within an established framework.

### DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 30th June, 2006, the directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.



**DIRECTORS' REPORT****AUDITORS**

The auditors, Messrs. Deloitte Touche Tohmatsu, will retire at the forthcoming Annual General Meeting.

A resolution will be submitted to the Annual General Meeting to appoint Messrs. HLM & Co as auditors of the Company.

On behalf of the Board

**Zhou Liping**

*CHAIRMAN*

Hong Kong, 23rd October, 2006