

REPORT OF THE DIRECTORS

The Directors present their first annual report and the audited financial statements of the Company and of the Group for the Year.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 28 August 2000 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 6 of 1961, as consolidated and revised) of the Cayman Islands ("**Companies Law**"). Pursuant to a group reorganisation ("**Group Reorganisation**") which took place on 20 September 2002 to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the ultimate holding company of the Group. Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are set out in notes 2 and 28, and 15 to the financial statements, respectively, and in the Prospectus.

The shares of the Company were first listed on the Stock Exchange on 10 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the research and development, manufacture, distribution and sale of Chinese pharmaceutical products primarily for women and the elderly, naturally-sourced anti-tumour medicines and western pharmaceutical products in the PRC.

An analysis of the principal activities of the Group during the financial year is set out in note 15 to the financial statements. During the Year, the Group acquired the entire equity interest in 貴州禾創投資有限公司, which holds the entire equity interest in 成都禾創藥業有限公司 (formerly, 成都醫藥採購供應站) which is engaged in the trading of pharmaceutical products, healthcare products, and medical appliances and equipment in the PRC, further details of which are set out in note 31(a) to the financial statements.

Save as disclosed above, there were no significant changes in the nature of the Group's principal activities during the Year.

CHANGE OF COMPANY NAME

On 1 August 2002, the name of the Company was changed from Hanfang Bio-Pharmaceutical Holdings Limited to Hua Han Bio-Pharmaceutical Holdings Limited.

RESULTS AND DIVIDENDS

The Group's profit for the Year and the state of affairs of the Company and of the Group at 30 June 2003 are set out in the financial statements on pages 31 to 73.

The Directors recommend the payment of a final dividend of HK2 cents per share in the Company in respect of the Year, to shareholders whose names appear on the register of members of the Company at the close of business on 24 November 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

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The proposed dividend is expected to be paid on or about 15 December 2003 if the recommendation is approved by the shareholders at the forthcoming annual general meeting of the Company ("**Annual General Meeting**") scheduled for 24 November 2003.

SUMMARY FINANCIAL INFORMATION

A summary of the consolidated/combined results and assets, liabilities and minority interests of the Group for the last four financial years, prepared on the basis set out therein and in note 2 to the financial statements, is set out on page 74 of this annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the Year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options, together with the reasons therefor, are set out in notes 28 and 29, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and there are no restrictions against such rights under the laws of the Cayman Islands.

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 since the listing of the Company's shares on the Stock Exchange on 10 December 2002.

RESERVES

Details of movements in the reserves of the Company and of the Group during the Year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2003, the Company's reserves available for distribution, calculated in accordance with the Companies Law, amounted to HK\$144,426,000, of which HK\$12,411,000 has been proposed as a final dividend for the Year. This also includes the Company's share premium account in the amount of HK\$131,677,000 which may be distributed, 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for less than 30% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for approximately 43% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 12%.

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None of the Directors or any of their associates, or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers for the Year.

DIRECTORS

The Directors during the Year were:

Executive Directors:

Mr. Zhang Peter Y.

Mr. Xu Peng

Mr. Deng Jie (appointed on 20 September 2002)

Mr. Long Xian Feng (appointed on 20 September 2002)

Mr. Wu Xian Peng (appointed on 20 September 2002)

Independent non-executive Directors:

Professor Kung Hsiang-Fu (appointed on 20 September 2002)

Professor Tso Wung-Wai (appointed on 20 September 2002)

In accordance with article 111 of the Company's articles of association, the office of Director of Mr. Deng Jie, Mr. Long Xian Feng, Mr. Wu Xian Peng, Professor Kung Hsiang-Fu and Professor Tso Wung-Wai will end at the forthcoming Annual General Meeting and they, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Zhang Peter Y., Xu Peng, Deng Jie, Long Xian Feng and Wu Xian Peng, being all the executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 1 September 2002, and is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party to the other.

Each of Professor Kung Hsiang-Fu and Professor Tso Wung-Wai is currently appointed as an independent non-executive Director for an unspecified term commencing from 20 September 2002.

Apart from the foregoing, none of the Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or its subsidiaries which is not determinable by the Company or its subsidiaries within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions in connection with the Group Reorganisation and those transactions described under the paragraph headed "Connected transactions" in this report below and disclosed in note 33 to the financial statements, no Director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the Year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2003, the interests and short positions of the Directors and chief executive of the Company in the share or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SF Ordinance**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/name of associated corporation	Capacity	Number and class of securities/percentage in equity interest (Note 1)
Zhang Peter Y.	The Company	Interest of controlled corporation	291,497,024 ordinary shares (L) (Note 2)
	The Company	Beneficial owner	500,000 ordinary shares (L) (Note 4)
	Bull's-Eye Limited	Beneficial owner	4,159 ordinary shares of US\$1 each (L) (Note 2)
Xu Peng	The Company	Interest of controlled corporation	291,497,024 ordinary shares (L) (Note 2)
	The Company	Beneficial owner	500,000 ordinary shares (L) (Note 4)
	Bull's-Eye Limited	Beneficial owner	2,427 ordinary shares of US\$1 each (L) (Note 2)

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Name of Director	The Company/name of associated corporation	Capacity	Number and class of securities/percentage in equity interest (Note 1)
Deng Jie	The Company	Beneficial owner	5,000,000 ordinary shares (L) (Note 4)
	GHMM	Interest of controlled corporation	3.35% (L) (Note 3)
	Guizhou Hanfang Xifeng Medical Industry Co., Ltd.	Interest of controlled corporation	5% (L) (Note 3)
Long Xian Feng	The Company	Beneficial owner	5,000,000 ordinary shares (L) (Note 4)
Wu Xian Peng	The Company	Beneficial owner	5,000,000 ordinary shares (L) (Note 4)
Kung Hsiang-Fu	The Company	Beneficial owner	500,000 ordinary shares (L) (Note 4)
Tso Wung-Wai	The Company	Beneficial owner	500,000 ordinary shares (L) (Note 4)

Notes:

- 1 The letter "L" represents the Director's interests in the share and underlying shares or, as the case may be, the percentage in the equity interest of the Company or its associated corporations.
- 2 These shares were held by Bull's-Eye Limited, the entire issued share capital of which is beneficially owned as to approximately 63.15% (represented by 4,159 shares of US\$1 each) by Zhang Peter Y. and as to approximately 36.85% (represented by 2,427 shares of US\$1 each) by Xu Peng.
- 3 These equity interests were held by Guiyang Headboy Kids Accessories Company Limited, which is beneficially owned as to 95% by Deng Jie and as to the remaining 5% by Long Xian Feng.
- 4 These shares were the respective number of shares which would be allotted and issued upon exercise in full of the options granted to each of Zhang Peter Y., Xu Peng, Deng Jie, Long Xian Feng, Wu Xian Peng, Kung Hsiang-Fu and Tso Wung-Wai under the share option scheme of the Company which was adopted pursuant to a resolution in writing passed by all shareholders of the Company on 25 November 2002. These options, all of which remained exercisable as at 30 June 2003, are exercisable at the subscription price of HK\$1.19 per share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.

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Save as disclosed above, as at 30 June 2003, none of the Directors and the chief executive of the Company had any interest and short positions in the share, underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Options granted to the Directors under the Scheme during the Year are as follows:

Name of Director	Date of grant	Number of underlying shares of the Company	Exercise price per share (HK\$)	Exercise period
Zhang Peter Y.	16/05/2003	500,000	1.19	16/05/2003 to 15/05/2005
Xu Peng	16/05/2003	500,000	1.19	16/05/2003 to 15/05/2005
Deng Jie	16/05/2003	5,000,000	1.19	16/05/2003 to 15/05/2005
Long Xian Feng	16/05/2003	5,000,000	1.19	16/05/2003 to 15/05/2005
Wu Xian Peng	16/05/2003	5,000,000	1.19	16/05/2003 to 15/05/2005
Kung Hsiung-Fu	16/05/2003	500,000	1.19	16/05/2003 to 15/05/2005
Tso Wung-Wai	16/05/2003	500,000	1.19	16/05/2003 to 15/05/2005

As at 30 June 2003, none of the above options granted to the Directors had been exercised and all such options remained outstanding.

Other than as disclosed above, at no time during the Year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

Due to the adoption of Statement of Standard Accounting Practice 34 "Employee benefits" during the Year, most of the details relating to the Scheme are also included in note 29 to the financial statements.

The Company operates the Scheme, which was adopted pursuant to a resolution in writing passed by all shareholders on 25 November 2002, for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. The Scheme became effective on 25 November 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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Eligible participants of the Scheme include the following:

- (i) any employee or proposed employee (whether full time or part time) of the Group or any entity ("**Invested Entity**") in which any member of the Group holds any equity interest (including any executive director but excluding any non-executive director of the Group or any Invested Entity);
- (ii) any non-executive director (including independent non-executive directors) of the Group or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) any company wholly owned by one or more of the eligible participants referred to in (i) to (vii) above.

As at the date of this report, the total number of shares in the Company which may be issued upon exercise of all options granted and to be granted under the Scheme and any other share option scheme of the Group is 56,800,000, representing 10% of the issued share capital of the Company immediately upon completion of the share offer and the capitalisation issue which took place in December 2002. The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). In addition, any options granted to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in the 12-month period up to and including the date of grant, are subject to shareholders' approval in a general meeting.

The offer of a grant of options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period for the options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Scheme.

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The subscription price for shares under the Scheme shall be a price determined by the Board, but shall not be less than the highest of:

- (i) the closing price of shares in the Company as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;
- (ii) the average closing price of the shares in the Company as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and
- (iii) the nominal value of the shares in the Company.

Details of the options to subscribe for shares in the Company granted to eligible participants during the Year are as follows:

Class of grantee	Date of grant	Number of underlying shares in the Company			Outstanding as at 30 June 2003	Exercise price per share (HK\$) (Note 3)	Exercise period
		Granted	Exercised	Lapsed			
Directors (Note 1)	16/05/2003	17,000,000	—	—	17,000,000	1.19	16/05/2003 to 15/05/2005
Other employees (Note 2)	16/05/2003	25,100,000	—	—	25,100,000	1.19	16/05/2003 to 15/05/2005
Advisers to the Group	16/05/2003	14,500,000	—	—	14,500,000	1.19	16/05/2003 to 15/05/2005
		56,600,000	—	—	56,600,000		

Notes:

- Details of options granted to each of the Directors are set out in the paragraphs headed "Directors' interest in shares, underlying shares and debentures of the Company and its associated corporations" and "Directors' rights to acquire shares or debentures" in this report above.
- Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).
- The closing price of the shares in the Company as stated in the Stock Exchange's daily quotations sheet on 15 May 2003, being the trading day immediately preceding the date of grant of the options, was HK\$1.19 per share.

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The options granted are not recognised in the financial statements until they are exercised, no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the options, the resulting shares to be issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares will be recorded by the Company in the share premium account. As at 1 July 2002, there was no outstanding options. No option lapsed or was cancelled during the Year. As at 30 June 2003, options carrying rights to subscribe for a total of 56,600,000 shares in the Company were outstanding.

The Directors consider that it is not appropriate to state the value of the options granted to the eligible participants during the Year on the ground that there are serious limitations in the application of the Black-Scholes Model and the Binominal Model in the valuation of options, especially there are a number of variables which are crucial to the calculation of the options value thus rendering such value not being able to be reasonably determined. Accordingly, the Directors believe that any valuation of the options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

Subject to the earlier termination of the Scheme in accordance with the rules governing the Scheme, the Scheme will expire on 25 November 2012.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

As at 30 June 2003, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of shareholder	Number of ordinary shares <i>(Note 1)</i>	Nature of interest	Approximate percentage of interest
Bull's-Eye Limited <i>(Note 2)</i>	291,497,024 (L)	Beneficial owner	51.32%
Liu Yu <i>(Note 3)</i>	291,997,024 (L)	Interest of spouse	51.41%
Liu Jie <i>(Note 4)</i>	291,997,024 (L)	Interest of spouse	51.41%
Kertwell Investment Limited <i>(Note 5)</i>	50,929,759 (L)	Beneficial owner	8.97%
Zhang Hongye <i>(Note 5)</i>	50,929,759 (L)	Interest of controlled corporation	8.97%
Zhou Wu Feng <i>(Note 6)</i>	50,929,759 (L)	Interest of spouse	8.97%
J.P. Morgan Chase & Co	28,940,000 (L) <i>(Note 7)</i>	Interest of controlled corporations	5.10%

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Notes:

1. The letter "L" represents the person's or the entity's interests in shares.
2. The entire issued share capital of Bull's-Eye Limited is beneficially owned as to approximately 63.15% (represented by 4,159 shares of US\$1 each) by Zhang Peter Y. and as to approximately 36.85% (represented by 2,427 shares of US\$1 each) by Xu Peng. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, each of Zhang Peter Y. and Xu Peng, both being executive Directors, is deemed to be interested in all the shares in the Company held by Bull's-Eye Limited.
3. Liu Yu is the wife of Zhang Peter Y., an executive Director, and is deemed to be interested in the shares and underlying shares in the Company in which Zhang Peter Y. is interested under the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance.
4. Liu Jie is the wife of Xu Peng, an executive Director, and is deemed to be interested in the shares and underlying shares in the Company in which Xu Peng is interested under the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance.
5. The entire issued share capital of Kertwell Investment Limited is beneficially owned by Zhang Hongye. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Zhang Hongye is deemed to be interested in all the shares in the Company held by Kertwell Investment Limited.
6. Zhou Wu Feng is the husband of Zhang Hongye and is deemed to be interested in the shares in the Company in which Zhang Hongye is interested under the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance.
7. Of these shares, 7,540,000, 17,640,000 and 3,760,000 shares were registered under the name of JPMorgan Chase Bank, JF Asset Management Limited and JF International Management Inc. respectively. JF Asset Management Limited and JF International Management Inc. are owned as to 99.99% and 100% respectively by J.P. Morgan Fleming Asset Management (Asia) Inc. which is in turn wholly owned by J.P. Morgan Fleming Asset Management Holdings Inc. J.P. Morgan Fleming Asset Management Holdings Inc. and JPMorgan Chase Bank are wholly owned by J.P. Morgan Chase & Co. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, J.P. Morgan Chase & Co. is deemed to be interested in the shares in the Company held by JPMorgan Chase Bank, JF Asset Management Limited and JF International Management Inc.

According to the register, 21,400,000 shares were held by J.P. Morgan Chase & Co. in its capacity of an investment manager and 7,540,000 shares formed part of a lending pool.

Save as disclosed above, as at 30 June 2003, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance.

CONNECTED TRANSACTIONS

During the Year, the Group had the following connected transactions (within the meaning of Chapter 14 of the Listing Rules):

(1) Guarantee given by the Company to secure banking facilities of non-wholly owned subsidiary

The Company provided a guarantee ("**Guarantee**", as supplemented and amended by an addendum) in favour of a licensed bank in Hong Kong to secure the repayment of a term loan facility ("**Facility**") of HK\$50,000,000 and other banking facilities (if any) from time to time granted by the bank to GHMM, a sino-foreign equity joint venture enterprise established in the PRC and owned as to 96.65% indirectly by the Company and as to 3.35% by Guiyang Headboy Kids Accessories Co., Ltd. ("**Guiyang Headboy**"). Guiyang Headboy is held as to 95% and 5% respectively by Messrs. Deng Jie and Long Xian Feng, both being executive Directors. The Facility was obtained to finance the general corporate funding requirements of GHMM.

The Guarantee is to secure 96.65% of the obligations and liabilities of GHMM under the Facility which was proportional to the Company's indirect interest in GHMM before the completion of the Acquisition as referred to in transaction numbered (2) below. The Guarantee will remain effective during the subsistence of the Facility. To secure the Company's liabilities under the Guarantee, the Company has pledged a fixed deposit of HK\$20,000,000 with the bank. The Facility is for a term of one year, extendable on annual basis subject to the approval of the Bank, and repayable in one lump sum at the end of the first year (unless extended) from the date of the first drawdown. Interest on amount drawn under the Facility is charged at the rate of 1.75% per annum over the Hong Kong Inter-Bank Offered Rate.

Given that (a) the Guarantee is to secure 96.65% of the obligations and liabilities of GHMM under the Facility which was proportional to the Company's indirect interest in GHMM before the completion of the Acquisition as referred to in transaction numbered (2) below, (b) the amount of the Facility is HK\$50 million and the Company's exposure under the Guarantee in respect of the Facility (and total value of the financial assistance) is HK\$48,325,000 (being 96.65% of the Facility amount) which exceeds 15% of the consolidated net tangible assets of the Company as at 30 June 2002 as shown in the Prospectus, the Guarantee constitutes a connected transaction for the Company under Rule 14.25(2)(b) of the Listing Rules.

(2) Acquisition of minority interest in GHMM

Pursuant to a sale and purchase agreement dated 30 June 2003, Intended Features Limited ("**IFL**"), a wholly owned subsidiary of the Company, conditionally agreed to acquire 3.35% of the equity interest in GHMM from Guiyang Headboy at a consideration of HK\$9.8 million ("**Acquisition**").

Prior to completion of the Acquisition, the registered capital of GHMM was owned as to 96.65% by IFL and as to the remaining 3.35% by Guiyang Headboy. Upon completion of the Acquisition, GHMM became a wholly foreign owned enterprise and an indirectly wholly owned subsidiary of the Company. The Acquisition has led to the Group's total and complete control over GHMM and will increase the Group's profit sharing in GHMM.

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Given that Guiyang Headboy is an associate of Mr Deng Jie, an executive Director, and that the consideration of the Acquisition does not exceed HK\$10,000,000, the Acquisition constitutes a connected transaction for the Company under Rule 14.25(1) of the Listing Rules and is exempted from approval by the shareholders of the Company. Details of the Acquisition were announced by the Company in its announcement dated 30 June 2003.

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 in existence during the Year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the Year are set out in note 33 to the financial statements.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 34 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice ("**Code**") as set out in Appendix 14 of the Listing Rules since the listing of the Company's shares on the Stock Exchange on 10 December 2002 up to the date of this report, except that the independent non-executive Directors of the Company are not appointed for specific terms. In the opinion of the Directors, this meets the same objective as the Code.

PRACTICE NOTE 19 OF THE LISTING RULES

Under the facility letter ("**Facility Letter**") granting the Facility as referred to in transaction numbered (1) in the paragraph headed "Connected transactions" in this report above and during the subsistence of the Facility, (i) Bull's-Eye Limited ("**BEL**"), the controlling shareholder of the Company holding approximately 51.32% of all the issued shares in the Company as at 30 June 2003, is required to remain interested in more than 45% of the issued share capital of the Company and (ii) BEL and Kertwell Investment Limited, a shareholder of the Company holding approximately 8.97% of all the issued shares in the Company as at 30 June 2003, together are required to remain interested in an aggregate of not less than 50% of the issued share capital of the Company. A breach of any of such conditions constitutes an event of default under the Facility Letter and all outstanding amounts of the Facility shall become repayable by GHMM to the Bank on demand.

Since BEL, as the Company's controlling shareholder, is required under the Facility Letter to maintain a specified minimum holding in the issued share capital of the Company, the Company is required to disclose certain particulars of the Facility as disclosed in this paragraph and in transaction numbered (1) in the paragraph headed "Connected transactions" in this report above under Practice Note 19 to the Listing Rules.

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AUDIT COMMITTEE

The Board established the audit committee ("**Committee**") on 20 September 2002, in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises the two independent non-executive Directors. The Group's financial statements for the Year have been reviewed by the Committee, who are of the opinion that such financial statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made.

AUDITORS

Ernst & Young were appointed as the first auditors of the Company for the Year.

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Zhang Peter Y.

Chairman and Chief Executive

Hong Kong, 29 October 2003