

Report of the directors

The directors have pleasure in submitting their report together with the audited accounts of the Company and its subsidiaries (collectively the “Group”) for the year ended 30 June 2004.

Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of subsidiaries are set out in note 35 on the accounts.

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 12 on the accounts.

Accounts

The profit of the Group for the year ended 30 June 2004 and the state of the Company’s and the Group’s affairs as at that date are set out in the accounts on pages 28 to 74.

An interim dividend for the year ended 30 June 2004 of 0.33 HK cents per ordinary share was paid on 25 March 2004. The directors propose, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of 0.67 HK cents per ordinary share for the year.

Five 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 75 of the annual report.

Reserves

Movements in the reserves of the Group during the year are set out in note 30 on the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$1,180,000 (2003: HK\$562,000).

Fixed assets

Movements in fixed assets of the Group during the year are set out in note 14 on the accounts.

Share capital

Details of the movements of the Company’s share capital during the year are set out in note 29 on the accounts.

Report of the directors

Distributable reserves

The Company's reserves available for distribution to shareholders as at 30 June 2004 consisted of contributed surplus of HK\$220,986,766 (2003: HK\$231,309,880) and retained profits of HK\$441,518 (2003: accumulated losses of HK\$72,164,907).

Share options

Details of the share options granted by the Company are disclosed below pursuant to the requirements under Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

(a) Information of the share option scheme

Details of the share option scheme (the "Scheme") approved by the shareholders of the Company on 23 August 2000, which became unconditional upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), are summarised as follows:

- | | | | |
|-------|---|---|--|
| (i) | Purpose of the Scheme | : | As incentive to executive management and employees. |
| (ii) | Participants of the Scheme | : | Eligible full-time employees including executive directors of the Company and its subsidiaries. |
| (iii) | Maximum number of shares available for subscription | : | Before 1 September 2001, the maximum number of shares in respect of which options may be granted under the Scheme and any other share option schemes of the Company cannot exceed 10% of the issued share capital of the Company from time to time. On or after 1 September 2001, it cannot exceed 10% of the issued share capital as at the date of approval of the Scheme. |
| (iv) | Total number of shares available for issue under the Scheme | : | As at the date of this report, 255,121,034 shares (representing 7.9% of total issued share capital) are available for issue under the Scheme, of which 246,934,000 shares represents shares that will be issued upon exercise of outstanding options. |
| (v) | Maximum entitlement of each participant under the Scheme | : | 25% of the aggregate number of shares issued and issuable under the Scheme. |

Report of the directors

Share options *(continued)*

(a) Information of the share option scheme *(continued)*

- | | | | |
|--------|--|---|---|
| (vi) | Minimum period for which an option must be held before it can be exercised and the exercise period of the option | : | Subject to the decision of the Board of Directors ("the Board"), the exercise period of the option cannot exceed a period of 42 months commencing on the later of (i) the expiry of 6 months after the date on which the option is accepted or (ii) the expiry of 12 months from the date of employment of such grantee with the Group, or such shorter period as the Board may from time to time determine, provided that only up to one-third of the option granted can be exercised in any 12 month period. |
| (vii) | Amount payable on acceptance of the option and the period within which payment must be made | : | Nominal amount of HK\$1 upon acceptance of the option. |
| (viii) | Basis of determining the exercise price | : | <p>For options granted before 1 September 2001, the exercise price is determined by the Board and will not be less than 80% of the average closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares, whichever is the higher.</p> <p>For options granted on or after 1 September 2001, the exercise price is the highest of the nominal value of the shares; the closing price of the shares on the Stock Exchange on the date of grant; and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant.</p> |
| (ix) | Remaining life of the Scheme | : | The Scheme will expire on 22 August 2010. |

Report of the directors

Share options (continued)

- (b) As at 30 June 2004, the executive directors and employees of the Group had the following interests under the Scheme:

Date of share options granted	Exercise period	Exercise price per share	At 1 July 2003	Granted during the year (Note 2)	Exercised during the year (Note 3)	Lapsed during the year	At 30 June 2004
<i>Directors (Note 1):</i>							
28 September 2000	29 March 2001 to 8 October 2004	0.2333	121,500,000	—	—	—	121,500,000
31 August 2001	1 March 2002 to 31 August 2005	0.3233	19,500,000	—	—	—	19,500,000
20 December 2002	2 December 2003 to 1 June 2007	0.3833	30,000,000	—	—	—	30,000,000
<i>Employees:</i>							
28 September 2000	28 March 2001 to 27 March 2005	0.2333	22,300,000	—	(7,115,000)	(1,050,000)	14,135,000
22 June 2001	22 December 2001 to 21 December 2005	0.3433	1,740,000	—	(240,000)	—	1,500,000
31 August 2001	1 March 2002 to 28 February 2006	0.3233	6,000,000	—	(360,000)	(240,000)	5,400,000
20 December 2002	2 October 2003 to 1 April 2007	0.3833	3,000,000	—	—	—	3,000,000
4 April 2003	5 October 2003 to 4 April 2007	0.363	24,000,000	—	—	—	24,000,000
11 March 2004	24 September 2004 to 7 April 2008	0.43	—	30,200,000	—	—	30,200,000
Total			228,040,000	30,200,000	(7,715,000)	(1,290,000)	249,235,000

There were no options cancelled in accordance with the terms of the Scheme during the year. The exercise period disclosed above is the maximum range which the exercise period of the option granted on a particular date can be fallen in between and the exercise period may vary for individual grantees. For more details, please refer to Note (a)(vi) above.

Report of the directors

Share options *(continued)*

- (b) As at 30 June 2004, the executive directors and employees of the Group had the following interests under the Scheme: *(continued)*

Notes:

- (1) For more details of options granted to individual directors, please refer to the section “Directors’ and chief executive’s interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation” on page 22.
- (2) At the date before the options were granted, 10 March 2004, the closing price of the shares was HK\$0.435.
- (3) The weighted average closing price of the shares immediately before the dates of exercise of these options was HK\$0.365 per share.

- (c) Value of options

The directors consider that the disclosure of the estimated value of options granted pursuant to the Scheme is not appropriate due to the uncertainty and subjectivity involved in modelling and pricing these options.

Directors

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

Chairman

Jonathan Koon Shum Choi

Executive directors

William Ka Chung Lam
Mary Yuk Sin Lam
Michael Wai Chung Wu
Michael Koon Ming Choi

Non-executive directors

Douglas Ching Shan Hui
Richard Yingneng Yin (retired in Annual General Meeting on 26 November 2003)

Independent non-executive directors

Robert Tsai To Sze
Raymond Wai Yung Wu

In accordance with Article 87(1) of the Company’s Bye-Laws, Ms. Mary Yuk Sin Lam and Dr. Douglas Ching Shan Hui will retire at the forthcoming Annual General Meeting and will not stand for re-election. Dr. Raymond Wai Yung Wu will retire at the forthcoming Annual General Meeting and being eligible, will offer himself for re-election.

Biographical details of directors and senior management

Biographical details of directors and senior management are set out on pages 13 and 14.

Report of the directors

Directors' service contracts

No director proposed for re-election at the forthcoming Annual General Meeting has entered into any service agreements with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contract of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at 30 June 2004, the interests and/or short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV the Hong Kong Securities and Futures Ordinance ("SFO")), as recorded in the register maintained under Section 352 of the SFO or as notified to the Company were as follows:

- (i) Interest in long positions of ordinary shares of the Company

Name of director	Type of interest	*Number of ordinary shares in the Company	*% of total issued shares
Mr. Jonathan Koon Shum Choi**	Corporate	2,329,681,327	72.0%
Mr. William Ka Chung Lam**	Corporate	2,329,681,327	72.0%
Ms. Mary Yuk Sin Lam**	Corporate	2,329,681,327	72.0%
Ms. Mary Yuk Sin Lam	Personal	7,500,000	0.2%
Mr. Michael Wai Chung Wu	Personal	2,514,000	0.1%

* Excludes interest in options to acquire ordinary shares of the Company which is disclosed in section (iv) below.

** Mr. Jonathan Koon Shum Choi, Mr. William Ka Chung Lam and Ms. Mary Yuk Sin Lam are deemed to be interested in 2,329,681,327 ordinary shares by virtue of the SFO. Such interest in shares is also set out under the section "Substantial shareholders' interests and short positions in the shares and underlying shares of the Company" shown on page 24.

Report of the directors

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (continued)

- (ii) Interest in long positions of common shares of Kingsway International Holdings Limited ("Kingsway International"), the ultimate holding company of the Company

Name of director	Personal interest	Family interest	Corporate interest	Other interest	*Total number of common shares	*% of total issued shares
Mr. Jonathan Koon Shum Choi**	10,101,596	—	26,828,055 (Note 1)	—	36,929,651	46.4%
Mr. William Ka Chung Lam**	9,226,750	—	—	10,515,060 (Note 2)	19,741,810	24.8%
Ms. Mary Yuk Sin Lam**	9,790,507	—	—	2,400,000 (Note 3)	12,190,507	15.3%
Mr. Michael Koon Ming Choi	106,937	—	—	—	106,937	0.1%
Dr. Douglas Ching Shan Hui	125,000	—	—	—	125,000	0.2%

* Excludes interest in options to acquire common shares of Kingsway International which is disclosed in section (v) below.

** By virtue of their interest in Kingsway International, Mr. Jonathan Koon Shum Choi, Mr. William Ka Chung Lam and Ms. Mary Yuk Sin Lam are deemed to be interested in the shares of the subsidiaries (including the Company as disclosed in section (i) above) of Kingsway International under the SFO.

Notes:

- (1) Of these, 12,750,000 shares are held by Sun Wah Capital Limited. Mr. Jonathan Koon Shum Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Sun Wah Capital Limited.

The remaining 14,078,055 shares are held by Scarlet Red Limited. Mr. Jonathan Koon Shum Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Scarlet Red Limited.

- (2) These shares are held by Dynasty International Holdings Limited which is a wholly owned subsidiary of Global Fame Limited. Global Fame Limited is wholly owned by The WKC Lam Family Trust which is a discretionary trust with Mr. William Ka Chung Lam and his two children as the beneficiaries.

- (3) These shares are held by Abundant World Limited. Abundant World Limited is wholly owned by The Mary Lam Family Trust which is a discretionary trust with Ms. Mary Yuk Sin Lam and her two children as the beneficiaries.

Report of the directors

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (continued)

- (iii) Interest in long positions of ordinary shares of HK Weaver Group Limited, a fellow subsidiary of the Company

Name of director	Type of interest	Number of ordinary shares	% of total issued shares
Mr. William Ka Chung Lam	Personal	59,620	4.6%
Ms. Mary Yuk Sin Lam	Personal	28,518	2.2%
Mr. Michael Wai Chung Wu	Personal	39,474	3.0%

- (iv) Interest in options to acquire ordinary shares of the Company

Details of the directors' interests in options under the Scheme disclosed on page 18 of this report are as follows:

Name of director	Exercise period	Exercise price per share	Number of options held on 1 July 2003 and 30 June 2004
Mr. Jonathan Koon Shum Choi	9 April 2001 to 8 October 2004	HK\$0.2333	45,000,000
Mr. William Ka Chung Lam	29 March 2001 to 28 September 2004	HK\$0.2333	45,000,000
Ms. Mary Yuk Sin Lam	29 March 2001 to 28 September 2004	HK\$0.2333	15,000,000
	1 March 2002 to 31 August 2005	HK\$0.3233	18,000,000
Mr. Michael Koon Ming Choi	4 April 2001 to 3 October 2004	HK\$0.2333	16,500,000
	1 March 2002 to 31 August 2005	HK\$0.3233	1,500,000
Mr. Michael Wai Chung Wu	2 December 2003 to 1 June 2007	HK\$0.3833	30,000,000

There were no options granted to or exercised by directors during the year.

Report of the directors

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (continued)

(v) Interest in options to acquire common shares of Kingsway International

Pursuant to a share option plan operated by Kingsway International, certain directors had been granted options to subscribe for the shares of Kingsway International as follows:

Name of director	Exercise price per share	Exercise period	Number of options held on 1 July 2003	Lapsed during the year	Number of options held on 30 June 2004
Mr. Jonathan Koon Shum Choi	C\$1.92	27 December 2000 to 26 December 2003	2,000,000	(2,000,000)	—
Mr. William Ka Chung Lam	C\$1.92	27 December 2000 to 26 December 2003	2,000,000	(2,000,000)	—
	C\$1.92	4 March 2002 to 1 March 2005	500,000	—	500,000
Mr. Richard Yingneng Yin	C\$1.92	27 December 2000 to 26 December 2003	2,000,000	(2,000,000)	—
Mr. Michael Koon Ming Choi	C\$0.8	17 December 1999 to 13 October 2003	250,000	(250,000)	—
Dr. Douglas Ching Shan Hui	C\$0.8	17 December 1999 to 13 October 2003	125,000	(125,000)	—

Save as disclosed above, none of the directors and chief executive of the Company or any of their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares or debentures of the Company and associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed above, as at 30 June 2004, none of the directors and chief executive had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive or their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the year.

Save as disclosed above, at no time during the year was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any other body corporate.

Report of the directors

Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

As at 30 June 2004, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests represent long positions in the shares of the Company.

	Name of shareholders	Country of incorporation	Number of ordinary shares in the Company		% of total issued shares	Notes
			Direct interest	Deemed interest		
(1)	World Developments Limited	British Virgin Islands	2,329,681,327	—	72.0%	(a)
(2)	Innovation Assets Limited	British Virgin Islands	—	2,329,681,327	72.0%	(a)
(3)	Kingsway International Holdings Limited	Bermuda	—	2,329,681,327	72.0%	(a)
(4)	Paddison Limited	Hong Kong	210,000,000	—	6.5%	(b)
(5)	China Trust and Investment Corporation for Foreign Economic Relations & Trade	People's Republic of China	—	210,000,000	6.5%	(b)
(6)	Sinochem Corporation	People's Republic of China	—	210,000,000	6.5%	(b)

Notes:

- (a) These shares represent the same interest and are therefore duplicated amongst World Developments Limited, Innovation Assets Limited and Kingsway International. World Developments Limited is a wholly owned subsidiary of Innovation Assets Limited whose entire issued share capital is beneficially owned by Kingsway International. Mr. Jonathan Koon Shum Choi beneficially owns or has control of approximately 46.4% of the issued share capital of Kingsway International and therefore is deemed (by virtue of the SFO) to be interested in these 2,329,681,327 shares. Mr. William Ka Chung Lam and Ms. Mary Yuk Sin Lam beneficially own or have control of approximately 40.1% on a combined basis of the issued share capital of Kingsway International and therefore are deemed (by virtue of the SFO) to be interested in these 2,329,681,327 shares.
- (b) These shares represent the same interest and are therefore duplicated amongst Paddison Limited, China Trust and Investment Corporation for Foreign Economic Relations & Trade and Sinochem Corporation. Paddison Limited is a wholly owned subsidiary of China Trust and Investment Corporation for Foreign Economic Relations & Trade whose entire issued share capital is beneficially owned by Sinochem Corporation.

Save as disclosed above, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Report of the directors

Management contracts

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

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

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.

Major customers and suppliers

During the year, the Group earned less than 30% of its turnover from its five largest customers.

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

Related party and connected party transactions

Significant related party and connected party transactions entered into by the Group during the year are disclosed in note 34 on the accounts.

Compliance with the code of best practice

The Company has complied throughout the year with The Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation according to the provisions of the Company's Bye-Laws.

Audit committee

An audit committee of the Board of Directors was established on 10 August 2000. Written terms of reference which set out the authorities and duties of the audit committee were adopted by the Board of Directors on the same date. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has two members comprising the two independent non-executive directors. Mr. Robert Tsai To Sze is the Chairman of the audit committee.

Report of the directors

Directors' interest in competing business

Set out below is information disclosed pursuant to paragraph 8.10 of the Listing Rules:

- (1) Kingsway International and its subsidiaries, other than those in the Group ("Kingsway International Group"), are mainly engaged in direct and regional investments, the development, production and distribution of software products and the provision of technical services relating to the financial markets in Hong Kong and Asia Pacific countries, and the provision of other financial services in Australia and Canada. The Company has entered into a non-competition undertaking with Kingsway International on 25 August 2000 ("the Kingsway International Undertaking"). According to the Kingsway International Undertaking, Kingsway International shall not, and shall procure Kingsway International Group not to, among other things, engage in the provision of financial, advisory, stockbroking, financing, fund management and futures brokerage services relating to stocks and futures in Hong Kong. Kingsway International has also undertaken not to, and will procure Kingsway International Group not to, apply for or obtain licenses to conduct such services in Hong Kong. In addition, investment in securities for the Group and the Kingsway International Group are performed independently from each other.
- (2) The Company and Mr. Jonathan Koon Shum Choi ("Mr. Choi") entered into a non-competition undertaking ("the Choi's Undertaking") on 10 August 2000. According to the Choi's Undertaking, Mr. Choi shall not, and shall procure the covenantors (as defined therein) not to, among other things, engage in the provision of financial, advisory, stockbroking, financing, fund management and futures broking services relating to stocks and futures in Hong Kong which may only be lawfully provided by a registered person (as defined therein) but excluding the provision of financial accommodation which does not fall within the definition of "Securities Margin Financing" for the purposes of the Hong Kong Securities Ordinance (which was repealed on 1 April 2003 and replaced by the SFO) in competition with the Group.

Auditors

KPMG were first appointed as auditors of the Company in 2004 upon the retirement of PricewaterhouseCoopers.

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.

By order of the board

Jonathan Koon Shum Choi
Chairman

Hong Kong, 21 September 2004