



## Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 30 June 2004.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

### **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 30 June 2004 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 22 to 66.

The directors do not recommend the payment of any final dividend for the year ended 30 June 2004.

## SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate:

### RESULTS

	Year ended 30 June				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<b>408,882</b>	366,876	305,287	145,763	106,998
PROFIT FROM OPERATING ACTIVITIES	<b>84,933</b>	102,442	96,468	49,492	33,561
Finance costs	<b>(310)</b>	(197)	(225)	(7)	–
PROFIT BEFORE TAX	<b>84,623</b>	102,245	96,243	49,485	33,561
Tax	<b>(9,907)</b>	(7,991)	(16,500)	(7,871)	(4,064)
PROFIT BEFORE MINORITY INTERESTS	<b>74,716</b>	94,254	79,743	41,614	29,497
Minority interests	<b>(7,916)</b>	(9,825)	(3,575)	(1,926)	(1,537)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>66,800</b>	84,429	76,168	39,688	27,960

**SUMMARY FINANCIAL INFORMATION (Cont'd)****ASSETS, LIABILITIES AND MINORITY INTERESTS**

		<b>At 30 June</b>			
	<b>2004</b>	2003	2002	2001	2000
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS	<b>162,696</b>	131,073	70,473	59,733	41,365
CURRENT ASSETS	<b>303,091</b>	235,914	201,865	89,282	36,275
TOTAL ASSETS	<b>465,787</b>	366,987	272,338	149,015	77,640
CURRENT LIABILITIES	<b>65,305</b>	53,036	52,292	29,868	23,962
NON-CURRENT LIABILITIES	<b>3,956</b>	4,363	4,618	458	—
TOTAL LIABILITIES	<b>69,261</b>	57,399	56,910	30,326	23,962
MINORITY INTERESTS	<b>28,284</b>	20,358	10,151	6,626	4,378
NET ASSETS	<b>368,242</b>	289,230	205,277	112,063	49,300

*Note:* The summaries of the combined results of the Group for the year ended 30 June 2000 and of the assets, liabilities and minority interests of the Group as at this date have been extracted from the Company's prospectus dated 18 April 2001. Such summaries were prepared from the audited financial statements of the companies now comprising the Group as if the current structure of the Group had been in existence throughout this financial year. The results of the Group for the three years ended 30 June 2001, 2002 and 2003 and of the assets, liabilities and minority interests of the Group as at these dates have been extracted from the audited financial statements of the Company for the respective years and restated as appropriate. The results of the Group for the year ended 30 June 2004 and of the assets, liabilities and minority interests of the Group as at 30 June 2004 are those set out on page 22 and pages 23 to 24 of the financial statements, respectively.

**FIXED ASSETS AND INVESTMENT PROPERTY**

Details of movements in the Group's fixed assets and investment property are set out in note 13 to the financial statements.

**SHARE CAPITAL AND SHARE OPTIONS**

Details of the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 25 and 26 to the financial statements, respectively.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Islands Companies Law"), being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

### **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 movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 25 and 26 and note 27 to the financial statements, respectively.

### **DISTRIBUTABLE RESERVES**

At 30 June 2004, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to HK\$35,860,000. In addition, the share premium account of the Company of HK\$125,375,000 as at 30 June 2004 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, the sales to the Group's five largest customers accounted for approximately 60.2% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 19.4%.

Purchases from the Group's five largest suppliers accounted for approximately 76.1% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 24.9%.

None of the directors of the Company or any of their associates or any shareholders (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 customers or suppliers.

## DIRECTORS

The directors of the Company during the year were as follows:

### EXECUTIVE DIRECTORS:

Ms. Chan Yuk Foebe	(appointed on 13 January 2004)
Mr. Chu Ki	(appointed on 13 January 2004)
Mr. Peng Zhanrong	(appointed on 26 February 2004)
Mr. Wang Hailou	
Mr. Wang Dan Hui	(resigned on 13 January 2004)
Mr. Wu Chieho Joseph	(resigned on 13 January 2004)

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Ma Wing Yun Bryan	
Mr. Meng Fanxi	
Mr. Wong Kai Tat	(appointed on 30 September 2004)
Mr. Feng Jianming	(resigned on 26 February 2004)

In accordance with Articles 108 and 112 of the Company's articles of association, Ms. Chan Yuk Foebe, Mr. Chu Ki, Mr. Peng Zhanrong, Mr. Meng Fanxi and Mr. Wong Kai Tat will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi were appointed for a term of two years commencing from 28 February 2001. The terms of their appointment were renewed for a further two years commencing from 28 February 2003. There is no service contract entered into between the Company and Mr. Wong Kai Tat.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and senior management of the Group are set out on pages 8 to 12 of the annual report.

### DIRECTORS' SERVICE CONTRACTS

Mr. Wang Hailou, executive director, has entered into a service contract with the Company for a term of three years commencing from 8 April 2001. The terms of his appointment were renewed for a further one year commencing from 1 April 2004, which will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other.

### **DIRECTORS' SERVICE CONTRACTS (Cont'd)**

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during 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.

### **DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 30 June 2004, none of the directors and chief executive of the Company had any interests or short positions in the shares 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) (the "SFO")) which were 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 (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, 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 of Hong Kong Limited ("Listing Rules"), to be notified to the Company and the Stock Exchange.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed in the share option schemes disclosures in note 26 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## INTERESTS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

As at 30 June 2004, the following persons, 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 SFO:

Name of shareholder	Number of ordinary shares	Nature of interest	Approximate percentage of interest
Master Oriental Limited ("Master Oriental")	Long position 175,560,000 ( <i>note 1</i> )	Corporate interests	18.17%
Heng Tai Consumables Group Limited ("Heng Tai")	Long position 175,560,000 ( <i>note 1</i> )	Corporate interests	18.17%
Neon Liberty Capital Management, LLC	Long position 78,880,000 ( <i>note 2</i> )	Corporate interests	8.16%
UBS AG	Long position 55,963,336 ( <i>note 2</i> )	Corporate interests	5.79%

Notes:

1. Master Oriental, a company incorporated in Hong Kong, is a wholly owned subsidiary of Heng Tai, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange. In accordance with the SFO, the interests of Master Oriental are deemed to be, and have therefore been included in the interests of Heng Tai.
2. To the best knowledge of the directors, Neon Liberty Capital Management, LLC and UBS AG are not connected persons of the Company and are not connected with any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the Listing Rules).

Save as disclosed above, as at 30 June 2004, no other person 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 SFO.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, there is sufficient public float of more than 25% of the Company's shares in the market as required under the Listing Rules.

### **DIRECTORS' INTERESTS IN A COMPETING BUSINESS**

During the year and up to date of this report, no director of the Company is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, 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 EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 32 to the financial statements.

### **CODE OF BEST PRACTICE**

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code of Best Practice"), the Company set up an audit committee (the "Audit Committee") on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control systems. The Audit Committee comprises the three independent non-executive directors of the Company, namely, Mr. Ma Wing Yun Bryan, Mr. Meng Fanxi and Mr. Wong Kai Tat. The Group's consolidated financial statements for the year have been reviewed by the Audit Committee, which is of the opinion that such financial statements comply with applicable accounting standards and requirements and that adequate disclosures have been made.

In the opinion of the directors, the Company has complied with the Code of Best Practice throughout the year.

### **AUDITORS**

Ernst & Young were auditors of the Company for the three years ended 30 June 2001, 2002 and 2003. On 14 May 2004, Ernst & Young tendered their resignation as the Company's auditors. On 1 June 2004, RSM Nelson Wheeler were appointed as auditors of the Company to fill the casual vacancy to hold office until the conclusion of the forthcoming annual general meeting.

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chan Yuk Foebe**

*Executive Director*

Hong Kong

18 October 2004