

Directors' Report

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

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance by business and geographical segments for the year ended 30 June 2004 is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2004 and the state of the Group's and the Company's affairs at that date are set out in the financial statements on pages 22 to 58.

A bonus issue of 120,100,000 new ordinary shares of HK\$0.01 each in the issued share capital of the Company by way of a special dividend was distributed among the shareholders of the Company whose names appeared on the register of members of the Company on 23 April 2004 (the "Eligible Shareholders") on the basis of one bonus share, credited as fully paid, for every five existing issued shares then held by the Eligible Shareholders.

The directors recommend the payment of a final dividend of HK\$0.01 per ordinary share, totalling HK\$7,763,500 in respect of the year ended 30 June 2004, to shareholders whose names appear on the register of members on 6 December 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves sections of the balance sheets.

RESERVES

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 and in note 24(b) to the financial statements respectively.

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FIVE YEAR FINANCIAL INFORMATION

A summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years is set out below:

Results

		Year ended 30 June			
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	<u>712,883</u>	<u>553,252</u>	<u>495,016</u>	<u>406,338</u>	<u>362,096</u>
OPERATING PROFIT	70,452	48,687	47,831	38,185	33,739
Finance costs	(1,766)	(2,027)	(1,076)	(171)	(124)
Share of results of associated companies	<u>6,156</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
PROFIT BEFORE TAXATION	74,842	46,660	46,755	38,014	33,615
Taxation	<u>(1,173)</u>	<u>(32)</u>	<u>(8,347)</u>	<u>(6,559)</u>	<u>(5,440)</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>73,669</u>	<u>46,628</u>	<u>38,408</u>	<u>31,455</u>	<u>28,175</u>

Assets and liabilities

		At 30 June			
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
NON-CURRENT ASSETS	190,109	63,797	18,600	11,950	6,639
CURRENT ASSETS	<u>221,453</u>	<u>216,362</u>	<u>165,229</u>	<u>83,807</u>	<u>60,507</u>
TOTAL ASSETS	<u>411,562</u>	<u>280,159</u>	<u>183,829</u>	<u>95,757</u>	<u>67,146</u>
CURRENT LIABILITIES	91,294	72,165	80,456	55,094	37,938
NON-CURRENT LIABILITIES	<u>6,317</u>	<u>12,478</u>	<u>—</u>	<u>—</u>	<u>—</u>
TOTAL LIABILITIES	<u>97,611</u>	<u>84,643</u>	<u>80,456</u>	<u>55,094</u>	<u>37,938</u>
SHAREHOLDERS' FUNDS	<u>313,951</u>	<u>195,516</u>	<u>103,373</u>	<u>40,663</u>	<u>29,208</u>

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Notes:

1. The results for the years ended 30 June 2001 and 2000 and of the assets and liabilities of the Group as at those dates have been extracted from the Company's prospectus dated 20 November 2001.
2. Pursuant to the group reorganisation on 3 December 2001, the financial statements have been reflected in the above five year financial summary as if the current structure of the Group had been in existence from the earliest period presented.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the financial statements.

CONSTRUCTION IN PROGRESS

Details of the movements in construction in progress of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

At 30 June 2004, the Company had distributable reserves of approximately HK\$262,119,000. Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company of approximately HK\$179,617,000 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem 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.

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MAJOR CUSTOMERS AND SUPPLIERS

During the year, the sales to the Group's five largest customers taken together accounted for less than 30% of the Group's total sales for the year.

Purchases from the Group's five largest suppliers taken together and the Group's largest supplier accounted for approximately 60% and 26%, respectively, of the Group's total purchases for the year.

None of the directors, 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 an interest in the major customers or suppliers noted above.

DIRECTORS

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

Executive directors

Mr. Lam Kwok Hing
 Mr. Chu Ki
 Mr. Fong Yiu Ming, Anson
 Ms. Lee Choi Lin, Joecy
 Ms. Chan Yuk, Foebie
 Mr. Peng Zhanrong (*appointed on 13 February 2004*)
 Mr. Chiau Che Kong (*appointed on 8 April 2004*)

Non-executive director

Mr. Lam Kwok Hung (*resigned on 13 February 2004*)

Independent non-executive directors

Mr. John Handley
 Mr. Mak Yiu Wah, Bilan (*resigned on 26 November 2003*)
 Mr. Poon Yiu Cheung, Newman (*appointed on 26 November 2003*)
 Ms. Mak Yun Chu (*appointed on 8 April 2004*)

In accordance with the Company's articles of association, Mr. Peng Zhanrong, Mr. Chiau Che Kong, Mr. John Handley, Mr. Poon Yiu Cheung, Newman and Ms. Mak Yun Chu will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Mr. John Handley is an independent non-executive director and was appointed for a term of three years expiring on 6 November 2004 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association of the Company.

Mr. Poon Yiu Cheung, Newman and Ms. Mak Yun Chu are independent non-executive directors and were appointed for a term of three years expiring on 25 November 2006 and 7 April 2007 respectively.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors of the Company and senior management of the Group are set out on pages 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Lam Kwok Hing, Mr. Chu Ki, Mr. Fong Yiu Ming, Anson and Ms. Lee Choi Lin, Joecy entered into service contracts with the Company respectively for an initial term of three years commencing on 1 July 2001, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Ms. Chan Yuk, Foebe entered into a service contract with the Company on 13 May 2002 for a term of three years, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Mr. Peng Zhanrong and Mr. Chiau Che Kong entered into service contracts with the Company on and with effective from 13 February 2004 and 8 April 2004 respectively which are terminated by either party giving not less than three months' notice in writing to the other party.

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 contracts of significance in relation to the Group's business to which the Company or any of 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.

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.

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DIRECTORS' INTERESTS AND SHORT POSITIONS

At 30 June 2004, the interests and short positions of the directors, the chief executives of the Company and their respective associates in shares, underlying shares (in respect of equity derivatives) and debentures of the Company and its 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 by the Company under Section 352 of the 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 ("Model Code"), were as follows:

(A) Interests in shares of the Company

Name of director	Notes	Number of issued ordinary shares held	Percentage of the issued share capital
Mr. Lam Kwok Hing	1	216,000,000	27.82%
Ms. Lee Choi Lin, Joecy	2	61,200,000	7.88%
Mr. Fong Yiu Ming, Anson	3	19,200,000	2.47%
Mr. Chu Ki	4	12,000,000	1.55%

Notes:

- These shares are owned by Best Global Asia Limited ("Best Global"), a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of Best Global is beneficially owned by Mr. Lam Kwok Hing, the spouse of Ms. Lee Choi Lin, Joecy.
- These shares are owned by World Invest Holdings Limited ("World Invest"), a company incorporated in the BVI. The entire issued share capital of World Invest is beneficially owned by Ms. Lee Choi Lin, Joecy, the spouse of Mr. Lam Kwok Hing.
- These shares are owned by Eshanghai Holdings Limited ("Eshanghai"), a company incorporated in the BVI. The entire issued share capital of Eshanghai is beneficially owned by Mr. Fong Yiu Ming, Anson.
- These shares are owned by Asia Startup Group Limited ("Asia Startup"), a company incorporated in the BVI. The entire issued share capital of Asia Startup is beneficially owned by Mr. Chu Ki.

All the interests disclosed above represent long position in the shares of the Company.

(B) Interests in underlying shares of the Company – physically settled unlisted equity derivatives

Name of director	Capacity	Number of underlying shares in respect of the share options granted	Percentage of the underlying shares over the issued share capital of the Company
Mr. John Handley	Beneficial owner	600,000	0.08%

Note: Details of the share options are disclosed under the section headed "Share option scheme" in note 23 to the financial statements.

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DIRECTORS' INTERESTS AND SHORT POSITIONS (*Continued*)

Save as disclosed above, as at 30 June 2004, none of the directors or the chief executives of the Company and their respective associates had any interests or short positions in shares, underlying shares or debentures of the Company, its subsidiaries or any associated corporations (within the meaning of Part XV of the SFO) which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions" above and under the heading "Share option scheme" in note 23 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, or the chief executives or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 23 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the interests and short positions of the substantial shareholders of the Company in shares and underlying shares (in respect of positions held pursuant to equity derivatives) of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

(A) Interests in shares of the Company

Name of substantial shareholder	Notes	Number of issued ordinary shares held	Percentage of the issued share capital
Best Global	1	216,000,000	27.82%
World Invest	2	61,200,000	7.88%
Arisaig Greater China Fund	3	75,024,000	9.66%
Arisaig Partners (Mauritius) Limited	4	75,024,000	9.66%
Lindsay William Ernest Cooper	5	75,024,000	9.66%
Value Partners Limited	6	43,012,000	5.54%
Mr. Cheah Cheng Hye	6	43,012,000	5.54%
UBS AG	7	39,472,000	5.08%

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SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. These shares are held by Best Global as beneficial owner and duplicate the interest held by Mr. Lam Kwok Hing in the Company.
2. These shares are held by World Invest as beneficial owner and duplicate the interest held by Ms. Lee Choi Lin, Joecy in the Company.
3. These shares are held by Arisaig Greater China Fund as beneficial owner.
4. These shares are held by Arisaig Partners (Mauritius) Limited as the investment manager of Arisaig Greater China Fund and duplicate the interest held by Arisaig Greater China Fund in the Company.
5. Arisaig Partners (Mauritius) Limited is indirectly owned as to 33.33% by Lindsay William Ernest Cooper and Lindsay William Ernest Cooper is accordingly taken to have an interest in the 75,024,000 shares in which Arisaig Partners (Mauritius) Limited is interested. The interest of Lindsay William Ernest Cooper in the Company duplicates those of Arisaig Greater China Fund and Arisaig Partners (Mauritius) Limited.
6. Value Partners Limited is holding the 43,012,000 shares as investment manager. Mr. Cheah Cheng Hye is deemed to be interested in the shares through 31.82% interest in Value Partners Limited.
7. These shares are held by UBS AG as a person having a security interest in shares.

All the interests disclosed above represent long position in the shares of the Company.

(B) Interests in underlying shares of the Company

None of the substantial shareholders of the Company were interested in any long nor short position in underlying shares of the Company.

Save as disclosed above, as at 30 June 2004, no other parties had an interest or a short position in the shares and underlying shares (in respect of positions held pursuant to equity derivatives) of 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, no directors of the Company are 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, as defined by the Listing Rules, other than those businesses of which the directors of the Company have been appointed as directors to represent the interests of the Company and/or the Group.

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CONNECTED TRANSACTIONS

During the year and up to the date of this report, no connected transactions were entered into between the Company or any of its subsidiaries and a connected person as defined under the Listing Rules.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the year.

AUDIT COMMITTEE

The Company's audit committee is composed of all the three independent non-executive directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 30 June 2004 with the executive directors.

POST BALANCE SHEET DATE EVENT

Details of the significant post balance sheet date event of the Group are set out in note 29 to the financial statements.

AUDITORS

On 12 August 2003, Ernst & Young resigned as the Company's auditors and RSM Nelson Wheeler were appointed by the directors as auditors of the Company to fill the casual vacancy so arising. There were no other changes in auditors during the past three years.

RSM Nelson Wheeler retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Lam Kwok Hing
Chairman

Hong Kong
18 October 2004