

Directors' Report

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended October 31, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in Notes 42 and 43 respectively to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover and purchases attributable to the Group's five largest customers and suppliers respectively were less than 30% of the Group's total turnover and purchases for the year.

None of the Directors, or any of their associates or any substantial 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 customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended October 31, 2004 are set out in the consolidated income statement on page 27.

No interim dividend was paid to the shareholders of the Company during the year.

The Directors now recommend the payment of a final dividend of HK5 cents per ordinary share to the shareholders on the register of members on March 21, 2005, amounting to HK\$28,190,000 and the retention of the remaining profit for the year of HK\$16,903,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 30 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at the year end date. The surplus arising on revaluation amounting to approximately HK\$648,000 has been credited to the consolidated income statement. Details of this and other movements in investment properties are set out in Note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired land and buildings situated outside Hong Kong at a cost of HK\$85,000, leasehold improvements at a cost of HK\$1,648,000, furniture, fixtures and office equipment at a cost of HK\$6,821,000, tools, machinery, factory equipment and fittings at a cost of HK\$6,700,000, motor vehicles at a cost of HK\$3,471,000 and operating supplies at a cost of HK\$3,328,000.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in Note 15 to the financial statements.

SHARE CAPITAL

Details of the issued share capital of the Company during the year are set out in Note 28 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors:

Mr. Lawrence Chia Song Huat, *Chairman*
Mr. James Chia Song Heng
Mr. Yong Choon Kong

Non-Executive Director:

Mr. Frank Lee Kee Wai (Redesignated as Non-Executive Director on December 28, 2004)

Independent Non-Executive Directors:

Mr. Gregory Robert Scott Crichton
Mr. Charlie Yucheng Shi
Mr. James Patrick Cunningham (Appointed on October 8, 2004)

In accordance with Article 116 of the Company's Articles of Association, Messrs. Yong Choon Kong and Frank Lee Kee Wai retire and, being eligible, offer themselves for re-election.

In accordance with Article 99 of the Company's Articles of Association, Mr. James Patrick Cunningham was appointed by the Board of Directors as an Independent Non-Executive Director with effect from October 8, 2004 to hold his office until the forthcoming Annual General Meeting where he will resign and, being eligible, offers himself for re-election.

All of the remaining Directors, including the Independent Non-Executive Directors, are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the aforementioned Article.

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract which is not determinable by the Group within six months without payment of compensation (other than statutory compensation).

The Company has received confirmations of independence from all Independent Non-Executive Directors, and considers them to be independent.

DIRECTORS' INTERESTS IN SHARES

At October 31, 2004, the interests of the Directors and their associates in the shares and underlying 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Directors		Number of shares/ underlying shares held	
		Personal interests	Other interests
Mr. Lawrence Chia Song Huat	(Notes 1, 2)	3,206,200	217,057,393
Mr. James Chia Song Heng	(Notes 1, 3)	1,942,000	217,057,393
Mr. Yong Choon Kong	(Note 4)	2,154,800	—
Mr. Frank Lee Kee Wai		—	—
Mr. Gregory Robert Scott Crichton		—	—
Mr. Charlie Yucheng Shi		—	—
Mr. James Patrick Cunningham		—	—

Notes:

- (1) A total of 217,057,393 shares are held through Pine Asset Management Limited, Eunus Limited and Chestnut Asset Management Limited which are wholly owned subsidiaries of Nastar Holdings S.A.. Nastar Holdings S.A. is the trustee of a discretionary trust and Mr. Lawrence Chia Song Huat and Mr. James Chia Song Heng are two of the beneficiaries.
- (2) The personal interest of Mr. Lawrence Chia Song Huat represents the interest in 1,081,000 shares and interest in 2,125,200 underlying shares in respect of the share options granted by the Company, the details of which are stated in the following section "Share options".
- (3) The personal interest of Mr. James Chia Song Heng represents the interest in 1,942,000 underlying shares in respect of the share options granted by the Company, the details of which are stated in the following section "Share options".
- (4) The personal interest of Mr. Yong Choon Kong represents the interest in 750,000 shares and interest in 1,404,800 underlying shares in respect of the share options granted by the Company, the details of which are stated in the following section "Share options".

Mr. Lawrence Chia Song Huat and Mr. James Chia Song Heng also have personal interests in 2,000 and 4,000 non-voting deferred shares, respectively in Pico International (HK) Limited, a subsidiary of the Company.

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

Save as disclosed herein and other than certain shares in subsidiaries held as nominees by certain Directors of the Group, none of the Directors and their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

On January 7, 2002, ordinary resolutions were passed by shareholders at an Extraordinary General Meeting to approve the adoption of New Share Option Scheme ("2002 Scheme") in order to fully comply with Chapter 17 of Listing Rules, and the termination of the Old Share Option Scheme ("1992 Scheme"). Despite the fact that no further options may be granted under 1992 Scheme, all other provisions of this scheme will remain in force to govern the exercise of all the options previously granted.

1. 1992 Scheme

The 1992 Scheme was adopted on September 4, 1992 and was terminated on January 7, 2002. It enables the Company to grant options to an Executive, who are full time Executive Directors and employees of the Company and its subsidiaries and has on the day preceding the offer date been such an employee or Executive Director for at least six months and any other employee or Executive Director of any Group Company nominated by the Directors to be an Executive, to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time, without prior approval from the Company's shareholders. It serves as a way of providing incentives to these employees for better performances of the Group. No options may be granted to any one Executive which if exercised in full would result in the total number of shares already issued and issuable to him under all the options previously granted to him and the said options exceeding 25% of the maximum aggregate number of shares in the capital of the Company in respect of which options may at that time be granted under the 1992 Scheme. Options granted must be taken up within 28 days from the date of offer, and be exercised during the period commencing six months after the offer date and expiring on the close of business on the fifth anniversary of that offer date. The exercise price is determined by the Directors, and shall not be less than 80% of the average closing prices of the shares for the five trading days immediately preceding to the offer date.

As at the date of this annual report, the total number of shares which may be issued on the exercise of the outstanding options granted thereunder is 6,903,800 shares, representing approximately 1.22% of the issued share capital of the Company.

2. 2002 Scheme

(i) Purpose

The 2002 Scheme was adopted on January 7, 2002. It enables the Company to grant options to Eligible Person as an incentive scheme for their contribution to the Group.

(ii) Eligible Person

- (a) any Executive, i.e. any person who is, or who at any time after January 7, 2002 becomes, a full-time or part-time employee or an Executive Director of any Group Company and has on the day preceding the offer date been such an employee or Executive Director for at least six months and any other employee or Executive Director of any Group Company nominated by the Directors to be an Executive;
- (b) any Non-Executive as approved by the Board of Directors.

SHARE OPTIONS – continued

2. 2002 Scheme – continued

(iii) *Maximum number of shares*

- (a) The maximum number of shares available for issue under options which may be granted thereunder is 54,545,725, representing 10% of the issued share capital of the Company as at the date of adoption of the 2002 Scheme.
- (b) The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

(iv) *Maximum entitlement of each Eligible Person*

The maximum number of shares issued and to be issued upon the exercise of options granted to each Eligible Person (including both exercised and outstanding options) in any 12-month period up shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.

(v) *Timing for exercise of options*

- (a) An option may be exercised in accordance with the terms of the 2002 Scheme at any time during a period to be notified by the Directors to each option holder but may not be exercised after the expiry of five years from the offer date. The Directors may provide restrictions on the exercise of an option during the period and option may be exercised as a result.
- (b) There is no general requirement on the performance targets that must be achieved before an option can be exercised under the terms of the 2002 Scheme. However, at the time of offer of an option, the Directors may, on a case by case basis, make such offer subject to such conditions in relation to performance targets to be achieved as the Directors may determine in their absolute discretion.

(vi) *Acceptance of offers*

An option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising acceptance of the option is duly signed by the grantee. It shall remain open for acceptance by the grantee concerned for a period of 28 days from the date on which an option is offered to grantee.

SHARE OPTIONS – continued

2. 2002 Scheme – continued

(vii) Basis for determination of exercise price

The subscription price per share in relation to an option shall be a price to be determined by the Directors and shall be no less than the highest of:

- (a) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date on which the option is offered to an Eligible Person, which must be a business day;
- (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date; or
- (c) the nominal value of the shares on the offer date.

(viii) Life of the scheme

The 2002 Scheme will remain in force for a period of 10 years commencing on January 7, 2002, which was the date of adoption of the 2002 Scheme.

3. Outstanding options

- (a) Details of outstanding options over new shares of the Company at the beginning and at the end of the year which have been granted under the 1992 Scheme are as follows:

Name of Directors		Outstanding at November 1, 2003	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Outstanding at October 31, 2004
<i>Category 1: Directors</i>						
Mr. Lawrence Chia Song Huat	(Note 1)	240,000	–	–	–	240,000
	(Note 2)	745,200	–	–	–	745,200
Mr. James Chia Song Heng	(Note 1)	232,000	–	–	–	232,000
	(Note 2)	700,000	–	–	–	700,000
Mr. Yong Choon Kong	(Note 1)	168,000	–	–	–	168,000
	(Note 2)	516,800	–	–	–	516,800
Total Directors		2,602,000	–	–	–	2,602,000
<i>Category 2: Employees</i>						
	(Note 1)	4,168,000	–	–	(1,320,000)	2,848,000
	(Note 2)	4,941,800	–	–	–	4,941,800
Total employees		9,109,800	–	–	(1,320,000)	7,789,800
Total all categories		11,711,800	–	–	(1,320,000)	10,391,800

SHARE OPTIONS – continued

3. Outstanding options – continued

- (b) Details of outstanding options over new shares of the Company at the beginning and at the end of the year which have been granted under the 2002 Scheme are as follows:

Name of Directors		Outstanding at November 1, 2003	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Outstanding at October 31, 2004
<i>Category 1: Directors</i>						
Mr. Lawrence Chia Song Huat	(Note 3)	540,000	–	–	–	540,000
	(Note 6)	600,000	–	–	–	600,000
Mr. James Chia Song Heng	(Note 3)	500,000	–	–	–	500,000
	(Note 6)	510,000	–	–	–	510,000
Mr. Yong Choon Kong	(Note 3)	360,000	–	–	–	360,000
	(Note 6)	360,000	–	–	–	360,000
Total Directors		2,870,000	–	–	–	2,870,000
<i>Category 2: Employees</i>						
	(Note 3)	4,590,000	–	–	–	4,590,000
	(Notes 4, 9)	2,374,000	–	(2,374,000)	–	–
	(Notes 5, 9)	30,000	–	(30,000)	–	–
	(Note 6)	4,520,000	–	–	–	4,520,000
	(Note 7, 9)	8,732,000	–	(5,738,000)	(428,000)	2,566,000
	(Note 8, 9)	–	2,872,000	(760,000)	–	2,112,000
Total employees		20,246,000	2,872,000	(8,902,000)	(428,000)	13,788,000
Total all categories		23,116,000	2,872,000	(8,902,000)	(428,000)	16,658,000

Notes:

- (1) The exercise price is HK\$0.63 per share and the option period during which the options may be exercised is the period from May 17, 2000 to December 17, 2004. The date of grant was December 17, 1999.
- (2) The exercise price is HK\$0.49 per share and the option period during which the options may be exercised is the period from May 17, 2001 to December 17, 2005. The date of grant was December 17, 2000.
- (3) The exercise price is HK\$0.604 per share and the option period during which the options may be exercised is the period from February 14, 2002 to January 14, 2007. The date of grant was January 14, 2002.
- (4) The exercise price is HK\$0.50 per share and the option period during which the options may be exercised is the period from May 2, 2002 to April 30, 2007. The date of grant was April 30, 2002.

SHARE OPTIONS – continued

3. Outstanding options – continued

Notes – continued:

- (5) The exercise price is HK\$0.461 per share and the option period during which the options may be exercised is the period from June 12, 2002 to June 11, 2007. The date of grant was June 11, 2002.
- (6) The exercise price is HK\$0.32 per share and the option period during which the options may be exercised is the period from March 4, 2003 to March 3, 2008. The date of grant was March 3, 2003.
- (7) The exercise price is HK\$0.26 per share and the option period during which the options may be exercised is the period from May 28, 2003 to May 27, 2008. The date of grant was May 27, 2003.
- (8) The exercise price is HK\$0.546 per share and the option period during which the options may be exercised is the period from May 10, 2004 to May 7, 2009. The date of grant was May 7, 2004, and the closing price of share immediately before the date of grant was HK\$0.53.
- (9) The weighted average closing price of shares immediately before the dates on which the options were exercised by employees is HK\$0.503.

4. Valuation of share options

The options granted are not recognised in the financial statements until they are exercised. The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders. Thus, it is more appropriate to disclose only the market price and exercise price.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance 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.

SUBSTANTIAL SHAREHOLDERS

As at October 31, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of SFO shows that other than the interest disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in shares and underlying shares of the Company

Name of Shareholder		Number of shares/ underlying shares held
Nastar Holdings S.A.	(Note 1)	217,057,393
Pine Asset Management Limited		183,424,030
Chia Song Piyau	(Note 2)	49,610,000
Pine Financial Services Limited		49,500,000
Oaktree Capital Management, LLC	(Note 3)	48,766,000
OCM Emerging Markets Fund, LP. ("EMF")		48,766,000

Notes:

- (1) These shares are held through Pine Asset Management Limited, Eunost Limited and Chestnut Asset Management Limited which are wholly owned subsidiaries of Nastar Holdings S.A.. Nastar Holdings S.A. is the trustee of a discretionary trust of which Mr. Lawrence Chia Song Huat and Mr. James Chia Song Heng are two of the beneficiaries.
- (2) Out of the balance, a total of 49,500,000 ordinary shares are held by Pine Financial Services Limited which is a company controlled by Mr. Chia Song Piyau.
- (3) These shares are held through OCM Emerging Markets Fund, LP.. Oaktree Capital Management, LLC is the sole general partner of the fund mentioned above and has the sole ability to manage and control the investments of the fund and is the only partner generally liable for the debts of the fund.

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at October 31, 2004.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Code of Conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules during the relevant accounting period and all Directors have complied with the required standard of dealings set out therein.

CODE OF BEST PRACTICE

Apart from the fact that Independent Non-Executive Directors are not appointed for the specific terms as they are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Articles of Association, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the audited financial statements for the year ended October 31, 2004.

PRE-EMPTIVE RIGHTS

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

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

During the year, the Company repurchased on the Stock Exchange a total of 3,160,000 shares of HK\$0.1 each at an aggregate price of HK\$1,419,230 (the highest/lowest price per share paid: HK\$0.47/0.39). The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued share capital of the Company was reduced by HK\$316,000 thereof. The premium payable on repurchase was HK\$1,103,230 charged against the retained earnings and an amount HK\$316,000 of shares cancelled was transferred from retained earnings to capital redemption reserve.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

A resolution to re-appoint Messrs. RSM Nelson Wheeler as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board.

On behalf of the Board

Lawrence Chia Song Huat

Chairman

Hong Kong, February 17, 2005