

Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31st December, 2004.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in Cayman Islands on 8th August, 2002.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 24th June, 2004.

The shares of the Company were listed on the Stock Exchange with effect from 15th July, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 31 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 22.

An interim dividend of HK3 cents per share amounting to HK\$5,400,000 was paid to the shareholders. The directors now recommend the payment of a final dividend of HK5 cents per share to the shareholders on the register of members of the Company on 25th May, 2005, amounting to HK\$9,700,000. Including the interim dividend, dividends for the year will amount to a total of HK8 cents per share.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2005 (Monday) to 25 May 2005 (Wednesday), both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and attending and voting at the 2005 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 20 May 2005 (Friday).

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

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

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RESERVES

Details of movements in reserves of the Company and the Group are set out in the statement of changes in equity of the Group and the Company on page 25 of the annual report.

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

Since the Listing Date, the Company has not redeemed any of its shares, and neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2004.

DIRECTORS

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

Executive directors

Mr. Fu Wai Chung (<i>Chairman</i>)	(appointed on 16th October, 2002)
Ms. Ng Wan	(appointed on 25th October, 2002)
Ms. Fu Man	(appointed on 25th October, 2002)
Mr. Lo Yat Fung	(appointed on 1st May, 2003)

Independent non-executive directors

Mr. Tsao Kwong Yung, Peter	(appointed on 1st May, 2003)
Mr. Ng Keung	(appointed on 1st May, 2003)
Mr. Lam King Pui	(appointed on 30th May, 2004)

In accordance with the provisions of the Company's Articles of Association, Ms. Ng Wan and Ms. Fu Man retire by rotation and, being eligible, offer themselves for re-election.

The term of office of each independent non-executive director is the period from the date of appointment up to his retirement by rotation as required by the provisions of the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a duration of three years commencing from 1st April, 2004 and will continue thereafter until terminated by either party giving to the other not less than three months' advance written notice of termination.

Other than as disclosed above, none of the directors of the Company has a contract of service with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (except for statutory compensation).

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31st December, 2004, the interests of the directors, chief executives and their associates in the share capital of the Company or its associated corporations (within the meaning as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies (the "Model Code") in the Listing Rules were as follows:-

(i) Ordinary shares of HK\$0.01 each in the Company

Name	Nature of interest	Number of shares interested	Percentage of shareholding
Fu Wai Chung ("Mr. Fu")	Corporate	91,800,000 (Note 1)	51%
	Corporate	8,100,000 (Note 2)	4.5%
Lo Yat Fung ("Mr. Lo")	Corporate	8,100,000 (Note 3)	4.5%

Note 1: These 91,800,000 shares are registered in the name of Fu's Family Limited ("Fu's Family") which is held as to 70% by Mr. Fu, 15% by Ms. Ng Wan (Mr. Fu's wife) and the remaining 15% by Ms. Fu Man.

Note 2: These 8,100,000 shares are registered in the name of China-net Holding Ltd. ("China-net") which is wholly held by Mr. Fu.

Note 3: These 8,100,000 shares are registered in the name of Best Hunt Group Limited ("Best Hunt") which is wholly held by Mr. Lo.

All interests in shares stated above represent long position.

In addition to the interests above, Mr. Fu also has non-beneficial personal equity interest in certain subsidiaries of the Company all held in trust solely for the purpose of complying with the previous statutory minimum shareholders requirement in Hong Kong.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)***(ii) Ordinary shares of US\$1.00 each in Fu's Family Limited, the associated corporation of the Company**

Name of director	Number of shares interested	Percentage of shareholding
Fu Wai Chung	70	70%

Save as disclosed above, as at 31st December, 2004, none of the Directors and chief executive of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company pursuant to the Model Code of the Listing Rules.

Subsequent to 31st December, 2004, the total deemed corporate interests of Mr. Fu and Mr. Lo reduced to 50.46% and 3.14% respectively following the placing and top-up subscription of shares of the Company by Fu's Family, China-net and Best Hunt in January 2005.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the written resolutions passed by the then shareholders on 24th June, 2004 the Company had adopted a share options scheme (the "Scheme"). Under the Scheme, the directors of the Company may, at their discretion, invite full-time or part-time employee of the Company or any member of the Group, including any executive, non-executive and independent non-executive directors, advisors, consultants of the Group to take up options to subscribe for shares in the Company representing up to a maximum 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders' approval.

Up to the date hereof, no share options were granted pursuant to the Scheme.

Other than 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 and chief executives of the Company or their associates to acquire benefits by means of the acquisition of shares in/or debt securities, including debentures of the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31st December, 2004, the interests or short positions of the substantial shareholders in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Number of shares interested	Percentage of shareholding
Fu's Family Limited (Note 1)	91,800,000	51.000%
Mr. Fu (Note 2)	99,900,000	55.500%
Elm Vale Ltd	17,325,000	9.625%
Pan Asia (Cayman) and Pan Asia Fund II (Note 3)	18,000,000	10.000%

Notes:

1. These 91,800,000 shares are registered in the name of Fu's Family Limited, the entire issued share capital of which is held as to 70% by Mr. Fu, 15% by Ms. Ng Wan and 15% by Ms. Fu Man. Under the SFO, Mr. Fu is deemed to be interested in all the shares registered in the name of Fu's Family Limited.
2. Apart from his interest in Fu's Family Limited, Mr. Fu is also interested in the entire issued share capital of China-net Holding Ltd. which holds 8,100,000 shares. Under the SFO, Mr. Fu is deemed to be interested in these 8,100,000 shares held by China-net Holding Ltd..
3. The entire issued share capital of Elm Vale Ltd. is held by Pan Asia Special Opportunities Fund (Cayman) ("Pan Asia (Cayman)").

Pan Asia (Cayman) is deemed to be interested in the 17,325,000 shares in the Company, being the same parcel of shares held by Elm Vale Ltd. in the Company. Pan Asia Special Opportunities Fund II ("Pan Asia Fund II") is, through its wholly-owned subsidiary, interested in another 675,000 share. Pan Asia (Cayman) and Pan Asia Fund II, which together are interested in 18,000,000 shares, representing 10% of the issued share capital of the Company, are collectively regarded as a substantial shareholder of the Company.

All the interests in shares stated above represent long position.

Save as disclosed above, as at 31st December, 2004, the Company had not been notified of any person's interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of Part XV of the SFO.

Subsequent to 31st December, 2004, after placing and top-up subscription of shares of the Company in January 2005 by Fu's Family and China-net, the number of shares of the Company held by Fu's Family is 91,800,000 and by China-net is reduced to 6,100,000 and the interests of Fu's Family and China-net respectively reduced to 47.32% and 3.14% of the existing enlarged share capital of the Company. The total deemed interest of Mr. Fu is 50.46% of the enlarged share capital of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Subsequent to 31 December 2004, after placing and top-up subscription of shares of the Company in January 2005, Value Partners Limited is interested in 23,092,000 shares of the Company representing 11.9% of the enlarged share capital of the Company.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 28 to the financial statements.

During the year, no options were granted, exercised, lapsed or cancelled.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of directors' interests in contracts of significance are set out in note 30 to the financial statements.

Other than as disclosed in note 30 to the financial statements, no other contracts of significance to which the Company 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.

CORPORATE GOVERNANCE

The Company has complied in the period between its listing date and 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to January 2005.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits included insurance and medical cover, subsidised training programme as well as share option scheme.

The determination of emoluments of the directors of the Company had taken into consideration their expertise and job specifications.

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PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS

The aggregate turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover for the year.

None of the directors, their associates, or any shareholder has any interest in the Group five largest customers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the percentage of the ordinary shares in public hands exceed 25% as at 19th April, 2005, being the latest practicable date to ascertain such information prior to the issue of this annual report.

JOINT AUDITORS

The financial statements were audited by Messrs. Deloitte Touche Tohmatsu and Zhong Yi (Hong Kong) C.P.A. Company Limited.

A resolution will be submitted to the annual general meeting to re-appoint them as auditors of the Company.

On behalf of the Board

Fu Wai Chung

Chairman

Hong Kong, 19th April, 2005