

Report of the Directors



The Directors submit their report together with the audited accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 21(b) to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 32.

The Directors recommend the payment of a final dividend of HK\$0.02 per ordinary share, totalling approximately HK\$18,567,000. The Directors also propose bonus issues of warrants to shareholders whose names appear on the register of members on 27 May 2005. The details of such bonus issues of warrants are set out in the Company's announcement dated 25 April 2005.

RESERVES

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

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 14 to the financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out in page 100.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2004 are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and there are no restrictions against such rights under the laws in the Cayman Islands.

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 98 to page 99.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased a total of 20,120,000 of its ordinary shares of HK\$0.10 each on the Stock Exchange. Details of the repurchases are set out in note 28(c) to the financial statements.

BANK LOANS, OVERDRAFTS AND OBLIGATIONS UNDER FINANCE LEASES

The Group's bank loans, overdrafts and obligations under finance leases as at 31 December 2004 are repayable over the following periods:

| | Bank loans and overdrafts | Obligations under finance leases | Total |
|----------------------------|--|---|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Within one year | 58,750 | 110 | 58,860 |
| In the second year | 117,500 | — | 117,500 |
| In the third to fifth year | 58,750 | — | 58,750 |
| | <u>235,000</u> | <u>110</u> | <u>235,110</u> |



CONVERTIBLE BONDS

There was no convertible bonds outstanding as at 31 December 2004.

SHARE OPTIONS

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 (the "Old Scheme") was terminated and another share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all share options granted prior to such termination continue to be valid and exercisable in accordance therewith. As at 31 December 2004, there were 76,758,300 share options granted which remained outstanding under the New Scheme. Details of the New Scheme are as follows:

(a) Purpose

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

(b) Eligible participants

Eligible participants of the New Scheme include the Company's Directors, including the Non-executive Directors and Independent Non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any minority shareholders of the Company's subsidiaries and any other person or entity determined by the Directors as having contributed or may contribute to the development and growth of the Group.

(c) Maximum number of issuable share options

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2004, the number of shares issuable pursuant to the grant of further options under the New Scheme was 39,402, which was governed by the latest 10% general limit refreshed and approved by the shareholders in a general meeting.

(d) Maximum entitlement of each eligible participant

The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant under the New Scheme in any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, Chief Executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the Independent Non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting.

(e) Exercisable period

The exercisable period of the share options granted is determined by the Directors, and commences after a certain vesting period, if any, and ends on a date which is not later than 10 years from the date of the offer. The share options which are granted and remain unexercised immediately prior to the end of the expiry date of the New Scheme shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the New Scheme.

(f) Payment on acceptance of option

The offer of a grant of share options shall be deemed to be accepted when the acceptance letter is duly signed by the grantee and the nominal consideration for the grant of HK\$1 is received by the Company within 28 days from the date of the offer.

(g) Basis of determining the exercise price

The exercise price of the share option is determined by the Directors, but not less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.



(h) Remaining life of the scheme

The New Scheme became effective on 20 December 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Details of the share options outstanding as at 31 December 2004 which have been granted under the Old Scheme are as follows:

| Participant | Date of grant ⁽¹⁾ | Exercise price HK\$ ⁽²⁾ | 1 January 2004 | Number of share options | | 31 December 2004 | Company's share price ⁽³⁾ | |
|---|------------------------------|---------------------------------------|-------------------|---------------------------------|----------------------------------|---------------------|--|--------------------------------|
| | | | | Granted during the period | Exercise during the period | | At date of grant HK\$ ⁽²⁾ | At date of exercise HK\$ |
| Executive Directors | | | | | | | | |
| Mr. Choi Woon Man | 4 January 2001 | 0.67 | 78,200 | – | (78,200) | – | 0.82 | 1.38 |
| Mr. Li Kwong Mo, Peter | 4 January 2001 | 0.67 | 3,800,000 | – | (3,800,000) | – | 0.82 | 1.32 |
| | | | 3,878,200 | – | (3,878,200) | – | | |
| Other employees | | | | | | | | |
| In aggregate | 4 January 2001 | 0.67 | 28,800 | – | (28,800) | – | 0.82 | 1.31 |
| Share options granted under the Old Scheme | | | 3,907,000 | – | (3,907,000) | – | | |

Report of the Directors

Details of the share options outstanding as at 31 December 2004 which have been granted under the New Scheme are as follows:

| Participant | Date of grant ⁽¹⁾ | Exercise price HK\$ ⁽²⁾ | 1 January 2004 | Number of share options | | 31 December 2004 | Company's share price ⁽³⁾ | |
|---|------------------------------|---------------------------------------|-------------------|---------------------------------|----------------------------------|---------------------|--|--------------------------------|
| | | | | Granted during the period | Exercise during the period | | At date of grant HK\$ ⁽²⁾ | At date of exercise HK\$ |
| Executive Directors | | | | | | | | |
| Ms. Wong Wai Kwan, Connie | 7 June 2004 | 0.63 | – | 250,000 | – | 250,000 | 0.63 | N/A |
| Mr. Choi Woon Man | 7 June 2004 | 0.63 | – | 150,000 | (150,000) | – | 0.63 | 0.74 |
| Mr. Wong Ying Yin | 7 June 2004 | 0.63 | – | 60,000 | – | 60,000 | 0.63 | N/A |
| Non-executive Directors | | | | | | | | |
| Mr. Yip Wai Leung, Jerry | 7 June 2004 | 0.63 | – | 150,000 | – | 150,000 | 0.63 | N/A |
| | | | – | 610,000 | (150,000) | 460,000 | | |
| Suppliers of goods or services, customers and others | | | | | | | | |
| In aggregate | 22 March 2002 | 1.33 | 1,200,000 | – | – | 1,200,000 | 1.35 | N/A |
| | 29 July 2002 | 1.50 | 10,300,300 | – | – | 10,300,300 | 1.44 | N/A |
| | 8 January 2003 | 1.23 | 5,882,000 | – | – | 5,882,000 | 1.23 | N/A |
| | 9 June 2003 | 1.15 | 14,486,000 | – | (5,000,000) | 9,486,000 | 1.15 | 0.84 |
| | 7 June 2004 | 0.63 | – | 69,100,000 | (36,400,000) | 32,700,000 | 0.63 | 0.69 |
| | | | 31,868,300 | 69,100,000 | (41,400,000) | 59,568,300 | | |
| Other employees | | | | | | | | |
| In aggregate | 8 January 2003 | 1.23 | 498,000 | – | – | 498,000 | 1.23 | N/A |
| | 9 June 2003 | 1.15 | 863,200 | – | 28,800 | 892,000 | 1.15 | 1.31 |
| | 7 June 2004 | 0.63 | – | 16,390,000 | (1,050,000) | 15,340,000 | 0.63 | 0.71 |
| | | | 1,361,200 | 16,390,000 | (1,021,200) | 16,730,000 | | |
| Share options granted under the New Scheme | | | 33,229,500 | 86,100,000 | (42,571,200) | 76,758,300 | | |
| Total share options granted | | | 37,136,500 | 86,100,000 | (46,478,200) | 76,758,300 | | |

No share options have lapsed during the year.

Note:

- (1) The exercisable period of the above share options is 3 years from the date of the grant as determined by the Directors.
- (2) For the options granted during 2001 and 2002, the exercise price and the Company's share price as at the date of grant have been adjusted following a board resolution passed on 27 August 2002 for the bonus issue of ordinary shares to the shareholders of the Company.
- (3) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average closing price of the shares immediately before the dates on which share options were exercised.



Summary of details of the Company's share option schemes are also set out in note 29 to the financial statements.

The financial impact of options granted is not recorded in the Company's and Group's financial statements until such time as the options are exercised. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

The Directors do not consider it appropriate to state the value of the options granted during the year as a number of variables which are crucial for the calculation of the options value have not been determined. The Directors believe that any calculation of the value of the options based on a great number of speculative assumptions would not be meaningful and would be misleading.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. Lau Jin Wei, Jim

Ms. Wong Wai Kwan, Connie

Mr. Wong Ying Yin (appointed on 31 December 2004)

Mr. Choi Woon Man (resigned on 30 September 2004)

Mr. Li Kwong Mo, Peter (resigned on 31 December 2004)

Non-executive Director

Mr. Yip Wai Leung, Jerry (redesignated on 30 September 2004)

Professor Ouyang Fan (resigned on 30 September 2004)

Independent Non-executive Directors

Mr. Ou Ying Ji

Mr. Lin Jian (appointed on 30 September 2004)

Mr. Lee Pak Chung (appointed on 30 September 2004)

In accordance with the Company's Articles of Association, Mr. Wong Ying Yin, Ms. Wong Wai Kwan, Connie, Mr. Lin Jian and Mr. Lee Pak Chung will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Directors of the Company, including the Non-executive Director, are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's Articles of Association. The Independent Non-executive Directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the Company's Articles of Association.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out from page 13 to page 17.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of one year commencing from 1 January 2004 (the "Previous Contracts"). Upon the expiry of the Previous Contracts, each of the existing Executive Directors has renewed the service contract with the Company for a term of one year commencing from 1 January 2005 (the "New Contracts"). The New Contracts continue thereafter until terminated by either party giving not less than one month's notice in writing to the other party.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of Mr. Choi Woon Man's and Mr. Yip Wai Leung, Jerry's interests in contracts of significance in relation to the Group's business are set out in notes 36(a) and 36(b) respectively to the financial statements.

Apart from the above, no other contracts of significance in relation to the Group's business to which the Company or 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.



CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31 December 2004, which constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Significant related party transactions entered into by the Group during the year ended 31 December 2004, which do not constitute connected transactions under the Listing Rules, are disclosed in note 36 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2004, the interests (which are all long positions) of the Directors and Chief Executives in the ordinary shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (including interest which they are deemed or taken to have under such provisions of the SFO)), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company were as follows:

| Name of Director | Personal interests | Number of ordinary shares/ underlying shares held | | Percentage of shareholding |
|---------------------------|-------------------------|--|--------------------------|----------------------------|
| | | Corporate interests | Family interests | |
| Mr. Lau Jin Wei, Jim | 5,400,000 (note (a)) | – | 80,712,000 (note (b)) | 9.51% |
| Mr. Choi Woon Man | 860,200 (note (c)) | 79,668,000 (note (d)) | – | 8.90% |
| Mr. Li Kwong Mo, Peter | 6,860,000 (note (e)) | – | – | 0.76% |
| Ms. Wong Wai Kwan, Connie | 250,050 (note (f)) | – | – | 0.03% |
| Mr. Yip Wai Leung, Jerry | 270,000 (note (g)) | – | – | 0.03% |
| Mr. Wong Ying Yin | 60,000 (note (h)) | – | – | 0.01% |

Notes:

- (a) The personal interest of Mr. Lau Jin Wei, Jim comprises 5,400,000 ordinary shares of the Company.
- (b) There are 80,712,000 ordinary shares of the Company as shown above held by MWC, a company incorporated in the British Virgin Islands. The entire share capital of MWC is owned by Mr. Lau Ru Dong, the father of Mr. Lau Jin Wei, Jim.
- (c) The personal interest of Mr. Choi Woon Man comprises 860,200 ordinary shares of the Company. Mr. Choi Woon Man resigned as Director of the Company on 30 September 2004.
- (d) There are 79,668,000 ordinary shares of the Company as shown above held by IFL, a company incorporated in the British Virgin Islands. The entire share capital of IFL is owned by Mr. Choi Woon Man.
- (e) The personal interest of Mr. Li Kwong Mo, Peter comprises 6,860,000 ordinary shares of the Company. Mr. Li Kwong Mo, Peter resigned as Director of the Company on 31 December 2004.
- (f) The personal interest of Ms. Wong Wai Kwan, Connie comprises 50 ordinary shares and 250,000 underlying shares in respect of share options granted by the Company to her, the details of which are stated in the above section "Share options".
- (g) The personal interest of Mr. Yip Wai Leung, Jerry comprises 120,000 ordinary shares and 150,000 underlying shares in respect of share options granted by the Company to him, the details of which are stated in the above section "Share options".
- (h) The personal interest of Mr. Wong Ying Yin comprises 60,000 underlying shares in respect of share options granted by the Company to him, the details of which are stated in the above section "Share options". Mr. Wong Ying Yin was appointed as Director of the Company on 31 December 2004.

Save as disclosed above, no directors, chief executives or their associates had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept 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.



SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, the register of substantial shareholders maintained under Section 336 of the SFO showed that, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital:

| Name of shareholder | Number of ordinary shares | Percentage of the Company's share capital |
|---------------------|---------------------------|---|
| MWC | 80,712,000 | 8.92% |
| IFL | 79,668,000 | 8.8% |

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

Save as disclosed above, the Company has not been notified by any other person (other than a director of the Company disclosed above) who has an interest or short position in the shares or underlying shares of the Company pursuant to Section 336 of the SFO as at 31 December 2004.

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 existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

| | |
|-----------------------------------|-----|
| Purchases | |
| – the largest supplier | 9% |
| – five largest suppliers combined | 31% |
| Sales | |
| – the largest customer | 10% |
| – five largest customers combined | 37% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

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 as set out in Appendix 14 of the Listing Rules throughout the year, except that the Non-executive Director and the Independent Non-executive Directors are not appointed for specific terms, but are 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. In the opinion of the Directors, this meets the same objective as the Code of Best Practice.

AUDIT COMMITTEE

The Company's Audit Committee comprises three Independent Non-executive Directors, namely Mr. Ou Ying Ji, Mr. Lin Jian and Mr. Lee Pak Chung.

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The Audit Committee met twice during the year of 2004 in conjunction with the auditors to review the internal controls, interim results and final accounts of the Group prior to recommending them to the Board for approval.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors have an interest in any business constituting a competing business to the Group.

PENSION SCHEME ARRANGEMENTS

On 1 December 2000, the Group set up a Mandatory Provident Fund Scheme (the "MPF Scheme") in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The assets of the MPF Scheme are held separately from those of the Group and under control of an independent trustee.



Both the Group and its employees located in Hong Kong are required to contribute 5% of the employees' monthly salaries. The mandatory contributions required to be made by the Group and an employee are capped at HK\$1,000 per month. Members are entitled to 100% of the employers' mandatory contributions as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or in accordance with the rules of the MPF Scheme.

Pursuant to the relevant regulations of the government of the mainland China, a subsidiary of the Company operates a local municipal government retirement benefits scheme (the "Mainland Scheme") for its employees located in the PRC. The subsidiary is required to make contributions to the Mainland Scheme at rates specified by the local practice and regulations and the local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary. The only obligation of the Group is to make the ongoing required contributions to the Mainland Scheme.

The Group's retirement benefit costs are charged to the consolidated profit and loss account when incurred and the aggregate contributions paid or payable by the Group was approximately HK\$541,000 for the year ended 31 December 2004 (2003: HK\$507,000). There were no provisions under the Group's retirement schemes whereby forfeited contributions may be used to reduce future contributions.

SUBSEQUENT EVENTS

- (a) Subsequent to the year end, the Company repurchased 6,204,000 ordinary shares of the Company on the Stock Exchange at average price of HK\$0.643 per share. Total cash proceeds received thereon before any related expenses was approximately HK\$3,989,000.
- (b) An aggregate of 29,500,000 ordinary shares were issued subsequent to the balance sheet date upon the exercise of the outstanding share options at an average exercise price of HK\$0.63 each. Total cash proceeds received thereon before any related expenses was approximately HK\$18,585,000.

AUDITORS

The financial statements for the year ended 31 December 2003 were audited by PricewaterhouseCoopers. PricewaterhouseCoopers resigned as the auditors of the Company during the year. CCIF CPA Limited were then appointed as auditors to fill the casual vacancy. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint CCIF CPA Limited as auditors of the Company.

On behalf of the Board
Lau Jin Wei, Jim
Chairman

Hong Kong, 25 April 2005