

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 30 June 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business segments is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 June 2005 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 24 to 66.

The directors do not recommend the payment of dividend for the year ended 30 June 2005.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated 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				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	694,091	408,882	366,876	305,287	145,763
PROFIT FROM OPERATING ACTIVITIES	121,624	84,933	102,442	96,468	49,492
Finance costs	(520)	(310)	(197)	(225)	(7)
PROFIT BEFORE TAX	121,104	84,623	102,245	96,243	49,485
Tax	(18,043)	(9,907)	(7,991)	(16,500)	(7,871)
PROFIT BEFORE MINORITY INTERESTS	103,061	74,716	94,254	79,743	41,614
Minority interests	(17,311)	(7,916)	(9,825)	(3,575)	(1,926)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	85,750	66,800	84,429	76,168	39,688

SUMMARY FINANCIAL INFORMATION (continued)**Assets, Liabilities and Minority Interests**

	At 30 June				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(restated)
NON-CURRENT ASSETS	299,941	162,696	131,073	70,473	59,733
CURRENT ASSETS	470,244	303,091	235,914	201,865	89,282
TOTAL ASSETS	770,185	465,787	366,987	272,338	149,015
CURRENT LIABILITIES	84,641	65,305	53,036	52,292	29,868
NON-CURRENT LIABILITIES	–	3,956	4,363	4,618	458
TOTAL LIABILITIES	84,641	69,261	57,399	56,910	30,326
MINORITY INTERESTS	86,359	28,284	20,358	10,151	6,626
NET ASSETS	599,185	368,242	289,230	205,277	112,063

Note: The results of the Group for the four years ended 30 June 2001, 2002, 2003 and 2004 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 2005 and of the assets, liabilities and minority interests of the Group as at 30 June 2005 are those set out on page 24 and page 25 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 14 to the financial statements.

BORROWING AND INTEREST CAPITALISED

Particulars of the Group's borrowings as at 30 June 2005 are set out in note 24 to the financial statements. No interest was capitalised by the Group during the year.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 27 and 28 to the financial statements, respectively.

On 30 September 2005, the Company's board of Directors resolved to amend the Company's share option scheme in conformity with Rule 17.03(13) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the supplementary guidance.

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 26 and note 29(b) to the financial statements, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2005, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to HK\$36,013,000. In addition, the share premium account of the Company of HK\$261,441,000 as at 30 June 2005 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 47.6% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 10.6%.

Purchases from the Group's five largest suppliers accounted for approximately 32.9% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 8.4%.

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

Mr. Chu Ki

Mr. Peng Zhanrong

Mr. Wang Hailou

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Ma Wing Yun Bryan

Mr. Meng Fanxi

Mr. Yau Chung Hong (appointed on 22 March 2005)

Mr. Wong Kai Tat (resigned on 21 December 2004)

In accordance with Articles 108 and 112 of the Company's articles of association, Mr. Ma Wing Yun Bryan and Mr. Yau Chung Hong 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. Upon the expiry of their respective appointment on 27 February 2005, the Company did not renew the service contracts with Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi. There is no service contract entered into between the Company and Mr. Yau Chung Hong.

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 9 to 13 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 term of his appointment was 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.

Each of Ms. Chan Yuk Foebe and Mr. Peng Zhanrong has entered into a service contract with the Company commencing from 22 November 2004, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's articles of association, continue until terminated by either party giving not less than three months' notice in writing to the other.

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 2005, none of the directors and chief executive of the Company had any interest or short position 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 28 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 2005, 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 263,340,000 (note 1)	Corporate interests	15.82% (note 1)
Heng Tai Consumables Group Limited ("Heng Tai")	Long position 263,340,000 (note 1)	Corporate interests	15.82% (note 1)
Mr. Chan Yuen Tung	Long position 197,055,488 (note 2)	Beneficial owner	11.84% (note 1)

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. On 22 June 2005, Heng Tai and the Company jointly announced that, pursuant to a placing agreement and a subscription agreement, Master Oriental would sell 214,810,000 existing shares of the Company (the "Placing") and subscribe for 214,810,000 new shares of the Company (the "Subscription"), respectively. The Placing was completed before 30 June 2005. Upon completion of the Placing but before the Subscription, the shareholdings of Master Oriental in the Company are reduced from 18.17% to 3.35%. The Subscription was completed on 4 July 2005. Upon completion of the Subscription, the shareholdings of Master Oriental in the Company increased from 3.35% to 15.82%.
2. To the best knowledge of the directors, Mr. Chan Yuen Tung is not a connected person of the Company and is 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 2005, 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 33 to the financial statements.

CORPORATE GOVERNANCE

The Company has throughout the year ended 30 June 2005 complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (in force on 1 January 2005), except that certain independent non-executive directors are not appointed for a specific term but are subject to rotation and re-election at the annual general meeting in accordance with the Company's articles and association.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities trading. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code.

AUDIT COMMITTEE

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. Yau Chung Hong. 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. Two meetings were held during the year.

AUDITORS

The financial statements for the two years ended 30 June 2002 and 2003 were audited by Ernst & Young. The financial statements for the two years ended 30 June 2004 and 2005 were audited by RSM Nelson Wheeler.

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

10 October 2005