

## REPORT OF THE DIRECTORS

The directors present their first report and the audited financial statements of the Company for the period from 22 April 2003 (date of incorporation) to 30 June 2003, which include supplementary pro forma combined financial information of the Group, which was legally formed subsequent to 30 June 2003, for the year ended 30 June 2003.

### GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 22 April 2003. The Company did not have any subsidiaries as at 30 June 2003. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group subsequent to the balance sheet date, on 15 August 2003. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto as well as the basis of presentation of the financial statements are set out in notes 1 and 27 to the financial statements.

Subsequent to the balance sheet date, on 10 September 2003, the Company's shares were listed on the Stock Exchange.

In order to apprise the Company's shareholders of the pro forma combined financial results and position of the Group, supplementary pro forma combined financial information comprising pro forma combined profit and loss account, balance sheet, statement of changes in equity, cash flow statement and notes thereto are therefore included in the financial statements as if the Group have been in existence throughout the year ended 30 June 2003. The basis of preparing the aforesaid supplementary pro forma combined financial information, which is detailed in note 2 to the financial statements, has also been consistently applied for presenting the information referring to the Group in this report of the directors.

### PRINCIPAL ACTIVITIES

As at 30 June 2003, the Company had not yet commenced business and the Group was not in existence.

Had the Group Reorganisation been completed on 30 June 2003, the principal activity of the Company would be investment holding. The principal activities of the Company's subsidiaries acquired pursuant to the Group Reorganisation are set out in note 27 to the financial statements.

There were no changes in the nature of the Group's principal activities during the year.

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## RESULTS AND DIVIDENDS

The Group's pro forma profit for the year ended 30 June 2003 and its pro forma combined state of affairs as at that date, together with the state of affairs of the Company as at 30 June 2003, are set out in the financial statements on pages 23 to 48.

The directors do not recommend the payment of any dividend in respect of the year ended 30 June 2003.

## SUMMARY FINANCIAL INFORMATION

A summary of the published pro forma combined financial results, assets and liabilities of the Group for the last four financial years, prepared on the basis as set out in note 2 to the financial statements, is set out on pages 49 and 50. This summary does not form part of the audited financial statements.

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital since 22 April 2003 (date of incorporation), and share options during the period, together with the reasons therefor, are set out in notes 21 and 22 to the financial statements, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period from 22 April 2003 (date of incorporation) to 30 June 2003, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares.

## RESERVES

Details of movements in the reserves of the Group during the year are set out in note 23 to the financial statements and in the pro forma combined statement of changes in equity.

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## DISTRIBUTABLE RESERVES

As at 30 June 2003, the Company did not have any distributable reserves.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 32% of the total sales for the year and sales to the largest customer included therein amounted to approximately 9%. Purchases from the Group's five largest suppliers accounted for approximately 88% of the total purchases of the year and purchases from the largest customer included therein amounted to approximately 21%.

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 and/or five largest suppliers during the year.

## DIRECTORS

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

### Executive directors:

Mr. Chen Dong	(appointed on 5 June 2003)
Mr. Chen Jinyan	(appointed on 27 June 2003)
Mr. Chen Qinzhi	(appointed on 27 June 2003)
Ms. Kong Ping	(appointed on 21 July 2003)

### Independent non-executive directors:

Mr. Tong Lap Hong	(appointed on 27 June 2003)
Mr. Huang Yongfeng	(appointed on 27 June 2003)

In accordance with article 87 of the article of association of the Company, Mr. Chen Dong will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for a term of one year.

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### DIRECTORS' SERVICE CONTRACTS

Messrs. Chen Jinyan and Chen Qinzhi entered into service contracts with the Company for a term of three years and Messrs. Chen Dong and Kong Ping for a term of one year. All the above service contracts commenced from 1 September 2003 and will continue thereafter until terminated by either party giving to the other a prior notice of three months in writing before its expiration.

Each of the independent non-executive directors is appointed for an initial term of one year commencing from 1 September 2003 and either the Company or the independent non-executive director may terminate the appointment by giving to the other a prior notice of one month in writing (or such other period as the parties may agree) before its expiration.

Apart from the foregoing, 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

Save for transactions in connection with the Group Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange and as disclosed in note 1 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

### DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Immediately following the completion of the listing of Company's shares on the Stock Exchange (the "Listing") and the capitalisation issue, as set out in note 21 to the financial statements, the directors have the following interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the provisions of the SFO) or which is required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which is required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange:

Name	Number of shares	Capacity	Percentage of holding
Mr. Chen Dong	581,910,000 (Note) Long position	Interest of a controlled corporation	66.5%

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### DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Note: The shares are held by Talent Crown Investment Limited ("Talent Crown"), a company incorporated in the British Virgin Islands (the "BVI"), the entire issued share capital of which is beneficially owned by Mr. Chen Dong. Mr. Chen Dong is the younger brother of Mr. Chen Jinyan and the son of Mr. Chen Qinzhi and all of them are the executive directors of the Company.

Save as disclosed above, none of the directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in 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 Divisions 7 and 8 of Part XV of the SFO, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

Immediately following the completion of the Listing and the capitalisation issue, as set out in note 21 to the financial statements, the following, not being a director or chief executive of the Company, has an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Number of shares	Percentage of holding
Talent Crown (Note)	581,910,000 Long position	66.5%

Note: Talent Crown is a company incorporated in the BVI. The entire issued share capital of which is beneficially owned by Mr. Chen Dong. Mr. Chen Dong is the younger brother of Mr. Chen Jinyan and the son of Mr. Chen Qinzhi and all of them are the executive directors of the Company.

Save as disclosed above, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had any interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which was required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

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### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests or short positions in shares, underlying shares and debentures" and in the share option scheme disclosure in note 22 to the financial statements, at no time during the period 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, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option scheme is set out in note 22 to the financial statements.

### CONNECTED AND RELATED PARTY TRANSACTIONS

Apart from as disclosed under the heading "Directors' interests or short positions in shares, underlying shares and debentures", neither the Company nor any of its subsidiaries conducted any transactions which are required to be disclosed under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 28 to the financial statements.

### AUDIT COMMITTEE

Subsequent to the balance sheet date, pursuant to the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company set up an audit committee (the "Committee") on 16 August 2003. The Committee was established with written terms of reference and have been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Committee now comprises two members, both being independent non-executive directors of the Company. The Group's audited financial statements, including the supplementary pro forma combined financial information, for the year, have been reviewed by the Committee.

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### COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company was listed on the Main Board of the Stock Exchange on 10 September 2003. Thus, during the period from 22 April 2003 (date of incorporation) to 30 June 2003, the Group was not subject to compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. Nevertheless, the Group was complied with the Code of Best Practice since the listing of the Company on the Main Board of the Stock Exchange.

### AUDITORS

Ernst & Young were appointed as the first auditors of the Company for the period ended 30 June 2003.

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chen Jinyan**  
Chairman

Hong Kong  
16 October 2003