

Report of the Directors

The directors of the Company (“Directors”) present their first report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

Group Reorganization

The Company was incorporated as a joint stock company with limited liability on 6 December 1999 in Shandong Province, the People’s Republic of China (“PRC”) under the original name of Shandong Weiqiao Textile Company Limited. Pursuant to the reorganization (“Reorganization”) in preparation for the listing of the Company’s H shares on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), the Company acquired certain businesses relating to the production, sale and distribution of cotton yarn, grey fabric and denim from Holding Company. Further details of the Reorganization, together with the details of the businesses acquired pursuant thereto, are set out in Note 1 to the financial statements and in the Prospectus.

The H shares of the Company were listed on the Main Board of the Stock Exchange on 24 September 2003.

Further details regarding the issue of the H shares are set out in Note 31 to the financial statements.

Change of Company Name

The name of the Company was changed from Shandong Weiqiao Textile Company Limited to Weiqiao Textile Company Limited on 19 February 2003.

Principal Activities

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. There were no significant changes in the nature of the Group’s principal activities during the year ended 31 December 2003.

Results and Dividends

The Group’s operating results for the year ended 31 December 2003 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 36 to 38 and pages 42 to 43.

The Directors recommended the payment of a final dividend of RMB0.056 per share for the year ended 31 December 2003, to shareholders on the register of

members on 17 March 2004. This recommendation has been incorporated in the audited financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

Use of Proceeds from the Company’s Initial Public Offering (“IPO”)

The net proceeds from the Company’s IPO in September 2003, after deduction of related issuance expenses, amounted to about RMB2,511 million (equivalent to about HK\$2,354 million). Of these proceeds, an aggregate amount of RMB2,250 million (equivalent to about HK\$2,123 million) were applied during the year ended 31 December 2003 to implement the Group’s future plans as stated in the Prospectus, as follows:

- 1 about RMB359 million (equivalent to about HK\$339 million) was used for expanding the Group’s product portfolio to include more high value-added cotton textile products, namely:
 - about RMB325 million (equivalent to about HK\$307 million) was used for high-end surface materials principally for apparel; and
 - about RMB34 million (equivalent to about HK\$32 million) was used for high-end geotextiles;
- 2 about RMB100 million (equivalent to about HK\$94 million) was used for upgrading the Group’s existing production technology including the introduction of blowroom machines, combers and double twisting machines;
- 3 about RMB600 million (equivalent to about HK\$566 million) was used for repaying bank loans; and
- 4 about RMB1,191 million (equivalent to about HK\$1,124 million) was used as general working capital of the Group.

The balance of the above proceeds in the sum of RMB261 million (equivalent to about HK\$231 million) are placed in short-term deposits with banks. The Company will apply such proceeds in accordance with its future plan as stated in the Prospectus at a time which the Directors consider to be in the best interests of the Company and its shareholders, taken as a whole.

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Summary Financial Information

A summary of the consolidated results, assets and liabilities of the Group for the last four financial years, as extracted from the accountants' report for the three years ended 31 December 2002 in the Prospectus, and from the audited consolidated financial statements of the Group for the year ended 31 December 2003 on pages 36 to 38, is set out below:

Results

	Year ended 31 December			2003 RMB'000
	2000 RMB'000	2001 RMB'000	2002 RMB'000	
Turnover	1,559,284	2,353,637	4,380,923	6,560,470
Cost of sales	(1,290,790)	(2,007,486)	(3,729,267)	(5,350,157)
Gross profit	268,494	346,151	651,656	1,210,313
Other revenue	2,018	23,748	49,303	74,120
Selling and distribution costs	(26,165)	(40,794)	(78,565)	(148,375)
Administrative expenses	(9,490)	(27,212)	(40,189)	(89,703)
Other operating expenses	(11,577)	(9,470)	(19,641)	(35,116)
Profit from operating activities	223,280	292,423	562,564	1,011,239
Finance costs	(16,500)	(46,009)	(101,506)	(157,797)
Profit before tax	206,780	246,414	461,058	853,442
Tax	(73,057)	(88,977)	(169,627)	(305,674)
Profit before minority interests	133,723	157,437	291,431	547,768
Minority interests	—	(3,397)	(3,191)	(6,096)
Net profit from ordinary activities attributable to shareholders	133,723	154,040	288,240	541,672

Assets and liabilities

	31 December			2003 RMB'000
	2000 RMB'000	2001 RMB'000	2002 RMB'000	
Total assets	987,671	2,632,421	5,538,972	11,339,925
Total liabilities	538,995	2,007,308	3,939,219	6,682,539

Fixed Assets

Details of movements in the fixed assets of the Company and the Group during the year ended 31 December 2003 are set out in Note 16 to the financial statements.

Share Capital and Share Option Scheme

Details of movements in the Company's share capital during the year ended 31 December 2003, together with the reasons therefor, are set out in Note 31 to the financial statements.

The Company does not have any share option scheme.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the Company Law of the PRC which could 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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2003.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2003 are set out in Note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2003, in accordance with the Company Law, an amount of about RMB2,790 million standing to the credit of the Company's capital reserve account, and an amount of about RMB208 million standing to the credit of the Company's statutory reserve funds, as determined in accordance with the PRC accounting standards and regulations, were available for distribution by way of future capitalisation issue. In addition, the Company had retained profits of about RMB654 million for distribution as dividend.

Major Customers and Suppliers

During the year ended 31 December 2003, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year ended 31 December 2003.

During the year ended 31 December 2003, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year ended 31 December 2003.

The Group has sold and purchased certain products to and from certain companies with the same ultimate controlling shareholder of the Company, details of which are set out in the section headed Connected Transactions below.

Directors' and Supervisors' Service Contracts and Letters of Appointment

Each of the executive Directors and supervisors of the Company ("Supervisors") (excluding the independent Supervisors) has entered into a service contract with the Company for a term of three years. Each of the non-executive Directors, independent non-executive Directors and independent Supervisors has entered into a letter of appointment with the Company for a term of three years. Pursuant to the Company's articles of association, each Director and Supervisor is eligible for re-election upon expiration of their term of office.

Report of the Directors

On 9 January 2003, Wang Jianwei, Zhang Shixue and Wang Xuesong resigned as Directors and Sun Chenglin, Wang Fuxi and Li Xiuping resigned as Supervisors. On 27 June 2003, Lu Hong resigned as Director. The Directors and Supervisors as at the date of this report and their respective term of office are as follows:

<i>Executive Directors:</i>	Term of Office
Zhang Bo	Until 16 March 2006
Zhang Hongxia	Until 16 March 2006
Qi Xingli	Until 16 March 2006
Zhao Suwen	Until 16 March 2006

Non-executive Directors:

Zhang Shiping	Until 16 March 2006
Wang Zhaoting	Until 16 March 2006

Independent non-executive Directors:

Wang Naixin	Until 16 March 2006
Xu Wenying	Until 26 June 2006
Chan Wing Yau, George	Until 16 March 2006

Supervisors:

Liu Mingping	Until 16 March 2006
Lu Tianfu (Note)	Until 16 March 2006
Wang Wei (Note)	Until 16 March 2006

Note: Independent Supervisor

Biographies of Directors, Supervisors and Senior Management

Biographical details of the Directors, Supervisors and the senior management of the Company are set out on pages 17 to 20 of this report.

Directors' and Supervisors' Interests in Contracts

Save for those transactions described in the note headed "Related Party Transactions" in Note 36 to the financial statements and the section headed "Connected Transactions" below. None of the Director or Supervisor is or was materially interested, either directly or indirectly, in any contract subsisting during or at the end of 2003 which is significant in relation to the business of the Group.

Contracts of Significance

Save for those transactions described in the note headed "Related Party Transactions" in Note 36 to the financial statements and the section headed "Connected Transactions" below, there is no contract of significance between the Company (or any of its subsidiaries) and its controlling shareholder (or any of its subsidiaries).

Directors', Supervisors' or the Company's Chief Executive's Interests in Shares

As at 31 December 2003, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept 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 Listed Companies, were as follows:

Long positions in the domestic shares of the Company:

	Type of interest	Number of domestic shares (note 1)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total issued share capital (%)
Zhang Hongxia (Executive Director)	Personal	17,700,400	3.34	2.16
Zhang Bo (Executive Director, Chairman)	Personal	12,932,000	2.44	1.58
Qi Xingli (Executive Director)	Personal	8,052,500	1.52	0.98
Zhang Shiping (Non-executive Director)	Personal	5,200,000	0.98	0.64

Long positions in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO):

	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital
Zhang Shiping (Non-executive Director)	Holding Company	Personal	4.53

Note 1: Unlisted shares

Save as disclosed above, as at 31 December 2003, none of the Directors, Supervisors or the chief executive of the Company had an interest or short position 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 was required to be (a) recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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Substantial Shareholders

As at 31 December 2003, so far as is known to the Directors, Supervisors and the chief executive of the Company, the interests of every person, other than a director, supervisor or chief executive of the Company, in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the domestic shares of the Company:

	Number of domestic shares <i>(note 1)</i>	Approximate percentage of issued total domestic share capital <i>(%)</i>	Approximate percentage of total issued capital <i>(%)</i>
Shandong Weiqiao Chuangye Group Company Limited <i>(Note 2)</i>	410,311,100 <i>(note 3)</i>	77.31	50.16
Zouping County Supply and Marketing Cooperation Union ("ZCSU")	410,311,100 <i>(note 4)</i>	77.31	50.16

Long positions in the H shares of the Company:

	Number of H shares <i>(note 5)</i>	Approximate percentage of total issued H share capital <i>(%)</i>	Approximate percentage of total issued capital <i>(%)</i>
Value Partners Limited	23,139,000 <i>(note 6)</i>	8.06	2.83
Cheah Cheng Hye	23,139,000 <i>(note 7)</i>	8.06	2.83
J.P. Morgan Chase & Co.	15,069,500 <i>(note 8)</i>	5.25	1.84

Notes:

1. Unlisted shares.
2. Known as Shandong Weiqiao Textile Group Company Limited, prior to its change of name on 14 October 2003.
3. These 410,311,100 domestic shares were directly held by Holding Company.
4. These 410,311,100 domestic shares were deemed corporate interests under the SFO indirectly held through Holding Company, in which ZCSU had a controlling interest.
5. Shares listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange").
6. These 23,139,000 H shares were held by Value Partners Limited as investment manager.
7. These 23,139,000 H shares were deemed corporate interests under the SFO indirectly held through Value Partners Limited, in which Cheah Cheng Hye had a controlling interest.
8. 8,006,000 H shares were held by J.P. Morgan Chase & Co. in its capacity as investment manager and 7,063,500 H shares in its capacity as custodian corporation/approved lending agent.

Save as disclosed above, so far as is known to the Directors, Supervisors and the chief executive of the Company, as at 31 December 2003, there was no other person who had an interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register required to be kept under section 336 of the SFO.

Management Contracts

No contract 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 ended 31 December 2003.

Connected Transactions

Details of the connected transactions of the Group for the year ended 31 December 2003 are set out below:

During the year ended 31 December 2003, certain transactions were entered into between the Group and the following connected persons of the Company:

1. Holding Company is one of the promoters and the controlling shareholder of the Company. It therefore constitutes a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").
2. Weiqiao Bleach is 40% owned by Holding Company. Weilian Print is a 65% owned subsidiary of Holding Company. Weiqiao Dyeing is a 60% owned subsidiary of Holding Company. As each of Weiqiao Bleach, Weilian Print and Weiqiao Dyeing is an associate of a promoter/substantial shareholder of the Company, it constitutes a connected person of the Company under the Listing Rules.
3. Itochu Corporation ("Itochu") is the holder of 10.2% interests in Luteng Textile, a 75% owned subsidiary of the Company. As it is a substantial shareholder of a subsidiary of the Company, it constitutes a connected person of the Company under the Listing Rules.
4. Binzhou Industrial Park is a company owned as to 97% by the Company and as to 3% by Holding Company. Weihai Weiqiao is a company owned as to 87.2% by the Company and as to 12.8% by Weihai Civil Aviation Industrial Company Limited ("WCAI"). Binzhou Industrial Park and Weihai Weiqiao, being non-wholly-owned subsidiaries of the Company, constitute connected persons under the Listing Rules.

All such transactions constituted connected transactions subsequent to the listing of the Company's H shares on the Stock Exchange under the Listing Rules.

Non-Exempt Connected Transactions

Set out below is a summary of the connected transactions ("Non-Exempt Connected Transactions") for which the Stock Exchange has granted a waiver:

Supply of cotton by Holding Company to the Group

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement pursuant to which Holding Company agreed to supply cotton (including lint cotton and tailings) to the Group for the production of cotton textile products. The agreement has a term of three years commencing from the date of the agreement. The prices of cotton supplied by Holding Company to the Group were determined by reference to the prices at which comparable types of cotton were supplied by independent third parties under normal commercial terms in the ordinary course of their businesses in the PRC.

Supply of cotton yarn and cotton fabric by the Group to Holding Company, its subsidiaries and associates ("Parent Group")

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement pursuant to which the Company agreed to supply or procure its subsidiaries to supply cotton yarn and cotton fabric to Parent Group for the production of downstream cotton textile products. The agreement has a term of three years commencing from the date of the agreement. The prices of cotton yarn and cotton fabric supplied by the Group to Parent Group were determined by reference to the prices at which comparable types of cotton yarn and cotton fabric were supplied by the Group to independent third parties under normal commercial terms in the ordinary course of its business in the PRC.

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Supply of cotton yarn and cotton fabric by the Group to Itochu

The Group supplied cotton yarn and cotton fabric to Itochu on normal commercial terms in order to maintain a close business relationship with Itochu. The prices at which cotton yarn and cotton fabric were supplied by the Group to Itochu were determined by reference to the prices at which comparable types of cotton yarn and cotton fabric were sold by the Group to independent third parties under normal commercial terms in the ordinary course of its business.

Supply of electricity and steam by Holding Company to the Group

On 25 August 2003, the Company and Holding Company entered into a supply of electricity and steam agreement pursuant to which Holding Company agreed to supply electricity and steam to the Group for a term of 10 years commencing from the date of the agreement. The Group was therefore able to obtain a stable supply of energy for its operations. The price at which electricity was provided to the Group by Holding Company was the lower of either RMB0.35 per kWh or the market price. The price at which steam was provided to the Group by Holding Company was the lower of either RMB60 per ton or the market price.

Provision of processing services by Parent Group to the Group

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement pursuant to which Holding Company agreed to procure its subsidiaries and/or associates (including but not limited to Weilian Print and Weiqiao Bleach) to provide, cotton yarn and grey fabric downstream processing services (e.g. dyeing, bleaching and printing) to the Group in order to accommodate the side demand from its customers for a term of three years commencing from the date of the agreement. The fees at which processing services were provided by Parent Group to the Group were determined by reference to the fees at which comparable types of processing services were provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the PRC.

Lease of land use rights and building right by Holding Company to the Company

During the year ended 31 December 2003, the Company and Holding Company entered into eight leasing agreements pursuant to which, Holding Company agreed to lease to the Company land use rights and building

right in respect of land and building respectively located at No. 34 Qidong Road and west of Xiwaihuan Road, Weiqiao Town, Zouping County, Shandong Province, the PRC for the Company's operations, with a right of renewal exercisable by the Company. The principal terms of the agreements are as follows:

Date of Agreement	Commencement Date	Expiry Date	Term (years)	Location	Total Land/ Building Area (square metre)	Annual Rent (RMB)
<i>Land Use Rights</i>						
27 December 2000	27 December 2000	27 December 2020	20	First Production Area	75,810.94	454,900
10 May 2001	10 May 2001	10 May 2021	20	First Production Area	144,667.39	868,000
30 September 2002	30 September 2002	30 September 2022	20	Second Production Area	148,114.07	888,700
14 May 2003	14 May 2003	14 May 2023	20	Third Production Area	250,510.11	1,503,000
17 October 2003	17 October 2003	17 October 2023	20	(Note 1)	165,686	994,100
17 October 2003	17 October 2003	17 October 2023	20	(Note 1)	333,324	2,000,000
17 October 2003	17 October 2003	17 October 2023	20	(Note 1)	361,105	2,167,000
<i>Building Right</i>						
10 May 2000	10 May 2000	10 May 2006	6	(Note 2)	3,000	600,000

Notes:

1. The land use right was in respect of land located to the east of Zouping County City in the economic development zone of Zouping County, Shandong Province, the PRC.
2. The building right was in respect of a room in a 5-storey building leased by Holding Company to the Company for use as its office. The 5-storey building was located at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC and was outside of the Production Areas.

The rent chargeable by Holding Company to the Company was determined by reference to the market rent, namely the rent payable for leasing land use rights/building right in respect of similar properties from independent third parties under normal commercial terms in the ordinary course of their businesses in Zouping County, Shandong Province, the PRC.

Further details of the Non-Exempt Connected Transactions are set out in the Prospectus and the Company's announcement dated 17 October 2003.

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Figures for the year ended 31 December 2003

Below is a table setting out the aggregate value for each of the Non-Exempt Connected Transactions for the year ended 31 December 2003:

Transaction nature	Aggregate value for the year ended 31 December 2003 (RMB million)
1. Supply of cotton by Holding Company to the Group	165
2. Supply of cotton yarn and cotton fabric	
(a) by the Group to Parent Group	218
(b) by the Group to Itochu	261
3. Supply of electricity and steam by Holding Company to the Group	229
4. Provision of processing services by Parent Group to the Group	11
5. Lease of land use rights and building right by Holding Company to the Company	5

Confirmation by the independent non-executive Directors

The independent non-executive Directors have reviewed the Non-Exempt Connected Transactions and confirmed that each of the Non-Exempt Connected Transactions was:

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) conducted either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether it was on normal commercial terms, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) entered into either in accordance with the relevant agreement governing such transactions or where there were no such agreements, on terms no less favourable than those available to or from independent third parties, as applicable; and
- (iv) was within the relevant annual cap which had been agreed with the Stock Exchange.

Other Connected Transactions

Granting of financial assistance by the Company and Holding Company to Binzhou Industrial Park

During the year ended 31 December 2003, the following guarantees given by the Company and Holding Company to Binzhou Industrial Park were in force. Pursuant to such guarantees, the Company and Holding Company agreed to guarantee severally, 97% and 3% respectively, of the obligations of Binzhou Industrial Park in respect of certain bank loans for working capital purposes. Each of the guarantees is for a period of 2 years commencing immediately after the date on which the relevant loan repayments are due. The relevant particulars concerning the guarantees are as follows:

Lender	Commencement date of loan period	Expiry date of loan period	Principal amount of loan (RMB million)	Date of guarantee	Amount guaranteed by the Company (RMB million)	Amount
						guaranteed by Holding Company (RMB million)
Industrial and Commercial Bank of China	31 December 2002	30 December 2005	30	8 July 2003	29.1	0.9
Industrial and Commercial Bank of China	18 July 2002	17 July 2005	3	8 July 2003	2.91	0.09
Industrial and Commercial Bank of China	20 December 2002	19 December 2005	8	8 July 2003	7.76	0.24
Industrial and Commercial Bank of China	26 August 2003	25 August 2004	16.55	26 August 2003	16.05	0.50
Shenzhen Development Bank Co. Ltd.	27 August 2003	26 August 2004	100	26 August 2003	97	3
Shenzhen Development Bank Co. Ltd.	11 September 2003	10 September 2004	100	26 August 2003	97	3
Shenzhen Development Bank Co. Ltd.	11 September 2003	10 September 2004	100	26 August 2003	97	3
Industrial and Commercial Bank of China	11 November 2003	10 February 2004	8.44	17 December 2003	8.19	0.25
Industrial and Commercial Bank of China	17 December 2003	16 March 2004	24.66	11 November 2003	23.92	0.74

Granting of financial assistance by the Company to Weihai Weiqiao

During the year ended 31 December 2003, the following guarantees given by the Company and WCAI to Weihai Weiqiao were in force. Pursuant to such guarantees, the Company and WCAI agreed to guarantee, 87.2% and 12.8% respectively, of the obligations of Weihai Weiqiao in respect of certain banking facilities for working capital purposes. Each of the guarantees is for a period of two years commencing on the day when the relevant banking facilities are due. The principal terms of the guarantees are as follows:

Lender	Effective date of banking facilities	Expiry date of banking facilities	Date of guarantee	Principal amount of banking facilities (RMB million)
Agricultural Bank of China	31 July 2002	30 July 2005	14 July 2003	40
Agricultural Bank of China	16 August 2002	15 August 2005	14 July 2003	6
Bank of Communications	10 October 2002	9 October 2005	14 July 2003	30
Agricultural Bank of China	20 November 2002	19 November 2005	14 July 2003	30
Agricultural Bank of China	15 January 2003	14 January 2006	14 July 2003	20
Agricultural bank of China	25 February 2003	24 February 2006	14 July 2003	30
Agricultural Bank of China	28 February 2003	27 February 2006	14 July 2003	4
Shanghai Pudong Development Bank Co., Ltd.	27 June 2003	Date of full repayment of banking facilities	18 August 2003	70

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Lender	Commencement date of loan agreement	Expiry date of loan agreement	Date of Guarantee	Principal amount of banking facilities (RMB million)
Agricultural Bank of China	30 June 2003	20 June 2004	30 June 2003	14
Agricultural Bank of China	30 June 2003	20 June 2004	30 June 2003	14.05
Agricultural Bank of China	28 November 2003	25 November 2004	28 November 2003	20
Bank of Communications	28 August 2002	28 August 2005	15 October 2003	10

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in Note 37 to the financial statements.

Retirement Scheme

Details of the retirement scheme of the Group are set out in Note 7 to the financial statements.

Compliance with the Code of Best Practice

To the best knowledge of the Directors, the Company has complied with the Code of Best Practice ("Code of Best Practice"), as set out in Appendix 14 of the Listing Rules, throughout the year ended 31 December 2003.

Audit Committee

The Company has established an audit committee ("Audit Committee") in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of the three independent non-executive Directors. An audit committee meeting was held on 27 February 2004 to review the Group's annual report and provide advice and recommendations to the board of directors of the Company.

International Auditors

Ernst & Young was the Company's international auditors for the year ended 31 December 2003. A resolution for the reappointment of Ernst & Young as international auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board of Directors

Zhang Bo
Chairman

Shandong, the PRC
27 February 2004