

The directors present their first report and the audited financial statements of the Company for the year ended 31 December 2003.

CORPORATE REORGANISATION AND LISTING OF THE COMPANY'S SHARES ON THE MAIN BOARD OF THE STOCK EXCHANGE

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a series of group reorganisation steps (the "Reorganisation"), the Company has since 2 June 2003 become the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus dated 10 June 2003 issued by the Company.

The shares of the Company are listed on the Main Board of the Stock Exchange with effect from 2 July 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 12 to the financial statements.

RESULTS AND APPROPRIATION

Details of the results of the Group for the year are set out in the consolidated income statement on page 31.

The directors recommend the payment of a final dividend of RMB0.04 (equivalent to approximately HK\$0.038) per share to the shareholders on the register of members on 11 June 2004, amounting to RMB15,312,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on page 34 and in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium and contributed surplus of the Company are distributable to the shareholders. At 31 December 2003, the Company's reserves available for distribution to shareholders amounted in total to approximately RMB171,314,000 (2002: Nil).

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 21 to the financial statements.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired plant and machinery of approximately RMB11 million and leasehold improvements of approximately RMB3 million for the expansion and improvement of its production capacity. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

REVALUED ASSETS

In the Prospectus, the Company included a valuation of its properties at approximately RMB17 million. The valuation has not been incorporated in the financial statements for the year ended 31 December 2003. The properties have been included in the balance sheet at 31 December 2003 at approximately RMB15 million, being their historical cost less accumulated depreciation and amortisation. Had the properties been stated at the revalued amount in the financial statements, additional depreciation and amortisation of approximately RMB0.3 million would have been charged against the income statement.

DIRECTORS

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

Executive directors:

Mr. Yang Zongwang (Chairman and Chief Executive Officer)	(appointed on 2 June 2003)
Mr. Xue Xi	(appointed on 2 June 2003)
Mr. Xue De Fa	(appointed on 2 June 2003)
Mr. Ng Kin Sun	(appointed on 2 June 2003)
Mr. Liu Zhi Qiang	(appointed on 2 June 2003)

Independent non-executive directors:

Mr. Tong Hing Wah	(appointed on 2 June 2003)
Mr. Chong Hoi Fung	(appointed on 2 June 2003)

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 2 June 2003 and renewable automatically for successive terms of one year.

In accordance with the provisions of the Company's Articles of Association, all directors retire and, being eligible, offer themselves for re-election.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests and short positions of the directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in the shares of the Company

Name of director	Type of interests	Number of shares	Approximate percentage of shareholding
Mr. Yang Zongwang ("Mr. Yang")	Corporate	191,500,000 (Note)	50.03%

Note:

These shares are registered in the name of and beneficially owned by Fu Teng Global Limited, a company incorporated in the British Virgin Islands, and whose entire issued share capital is owned by Mr. Yang.

Other than as disclosed above, none of the directors nor chief executive nor any of their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2003.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of the directors and chief executive, the following shareholders had notified the Company that they were interested in 5% or more of the issued share capital of the Company.

Long positions in shares of the Company

Name	Type of interests	Capacity	Number of shares	Approximate percentage of shareholding
Fu Teng Global Limited	Corporate	Beneficial owner	191,500,000 (Note 1)	50.03%
Ms. Yang Yunxian	Corporate	Interest of spouse	191,500,000 (Note 1)	50.03%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Long positions in shares of the Company (Cont'd)

Name	Type of interests	Capacity	Number of shares	Approximate percentage of shareholding
China Plaza Tradings Limited	Corporate	Beneficial owner	24,000,000 (Note 2)	6.27%
Mr. Lam Tun Kam	Corporate	Interest of a controlled corporation	24,000,000 (Note 2)	6.27%
Ms. Wong Wai Yan	Corporate	Interest of spouse	24,000,000 (Note 2)	6.27%
Luskin Star Enterprises Ltd.	Corporate	Beneficial owner	24,000,000 (Note 3)	6.27%
Ms. Chan Chau Wan	Corporate	Interest of a controlled corporation	24,000,000 (Note 3)	6.27%
Mr. Lam Ping Tung	Corporate	Interest of spouse	24,000,000 (Note 3)	6.27%
Dynamic Bright International Limited	Corporate	Beneficial owner	22,500,000 (Note 4)	5.88%
Mr. Chen Hong Liang	Corporate	Interest of a controlled corporation	22,500,000 (Note 4)	5.88%
Equity Eye International Limited	Corporate	Beneficial owner	21,000,000 (Note 5)	5.48%
Mr. Tong Yiu On	Corporate	Interest of a controlled corporation	21,000,000 (Note 5)	5.48%
Ms. Chen Zen Zen, Karen	Corporate	Interest of spouse	21,000,000 (Note 5)	5.48%

SUBSTANTIAL SHAREHOLDERS *(Cont'd)*

Long positions in shares of the Company *(Cont'd)*

Notes:

1. Mr. Yang is the owner of the entire issued share capital of Fu Teng Global Limited. Mr. Yang and his spouse, Ms. Yang Yunxian, are taken to be interested in these 191,500,000 shares held by Fu Teng Global Limited by virtue of the SFO.
2. Mr. Lam Tun Kam is the owner of the entire issued share capital of China Plaza Tradings Limited. Mr. Lam Tun Kam and his spouse, Ms. Wong Wai Yan, are taken to be interested in these 24,000,000 shares held by China Plaza Tradings Limited by virtue of the SFO.
3. Ms. Chan Chau Wan is the owner of the entire issued share capital of Luskin Star Enterprises Ltd. Ms. Chan Chau Wan and her spouse, Mr. Lam Ping Tung, are taken to be interested in these 24,000,000 shares held by Luskin Star Enterprises Ltd. by virtue of the SFO.
4. Mr. Chen Hong Liang is the owner of the entire issued share capital of Dynamic Bright International Limited. Mr. Chen Hong Liang is taken to be interested in these 22,500,000 shares held by Dynamic Bright International Limited by virtue of the SFO.
5. Mr. Tong Yiu On is the owner of the entire issued share capital of Equity Eye International Limited. Mr. Tong Yiu On and his spouse, Ms. Chen Zen Zen, Karen, are taken to be interested in these 21,000,000 shares held by Equity Eye International Limited by virtue of the SFO.

Save as disclosed above, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as at 31 December 2003, which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 27 to the financial statements.

No option was granted by the Company under the share option scheme since its adoption and up to 31 December 2003.

On 10 February 2004, 30,000,000 share options were granted at an exercise price of HK\$0.81 (equivalent to RMB0.86) per share.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in share option scheme above and the issues of shares of the Company pursuant to the Reorganisation mentioned above, at no time during the year was the Company, its holding company or any of its subsidiaries, 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 and neither the directors nor chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year ended 31 December 2003, the Group had the following transactions with connected parties as defined in Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Pursuant to a tenancy agreement dated 16 September 2002 entered into between Mr. Yang as lessor and Fuwang, a wholly-owned subsidiary of the Company, as lessee, Fuwang agreed to lease an office unit and a carparking space from Mr. Yang for a term of three years from 1 January 2003 to 31 December 2005 at a quarterly rental of RMB27,300 (inclusive of management, sanitary, newspaper delivery and equipment depreciation fees but exclusive of all relevant outgoings (including water and electricity charges, telephone charges and carparking fees)). On 1 July 2003, the Group and Mr. Yang entered into an agreement to terminate the tenancy agreement with immediate effect. Rental paid by the Group under the tenancy agreement during the year and up to the date of termination amounted to RMB55,000.

Other than as disclosed above, no contracts of significance to which the Company, its holding company or any of 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was approximately 42% of the Group's total turnover and the Group's largest customer accounted for approximately 16% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 76% of the Group's total purchases and the Group's largest supplier accounted for approximately 38% of the Group's total purchases.

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers or suppliers of the Group.

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

The Company's shares are listed on the Stock Exchange with effect from 2 July 2003. Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules since the date of listing of the Company's shares, except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the directors passed on 2 June 2003 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

The audit committee consists of both independent non-executive directors, namely, Mr. Tong Hing Wah and Mr. Chong Hoi Fung. The audit committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of interim and annual financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Yang Zongwang

Chairman

Hong Kong, 6 April 2004