

## Directors' Report

The Directors have pleasure in submitting their first annual report together with the audited financial statements of the Company for the period from 27 November 2003 (being the date of incorporation) to 31 December 2003. Attached to the audited financial statements is the proforma financial information of the Group for the year ended 31 December 2003 prepared on the basis set out on page 40.

### **GROUP REORGANISATION AND LISTING ON THE MAIN BOARD**

The Company was incorporated in the Cayman Islands on 27 November 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law of the Cayman Islands"). Pursuant to a group reorganisation (the "Group Reorganisation") of the Group in preparation for the listing of the Company's shares (the "Shares") on the Main Board of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group on 10 March 2004.

Details of the Group Reorganisation are set out in the Prospectus.

The Shares were listed on the Main Board of the Stock Exchange on 26 March 2004.

To facilitate comparison of the financial results and position of the Group with that presented in the accountants' report in the Prospectus, proforma financial information comprising proforma combined income statement, balance sheet, statement of changes in equity and cash flow statement in respect of the Group, based on the structure of the Group following the Group Reorganisation, are set out on pages 41 to 47 of the annual report. The basis of presentation of the proforma financial information is set out on page 40 of the annual report. The accounting policies set out on pages 48 to 55 have been consistently applied for presenting the proforma financial information in respect of the Group in this report.

### **USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING**

Upon the Listing, the gross proceeds from the initial public offering were HK\$188 million. The Directors intend to use the proceeds to implement the Group's future plans, to repay certain bank borrowings and to provide additional general working capital for the Group. Further details of the use of proceeds are set out in the Prospectus.

# Directors' Report

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The Company is an investment holding company and has not carried out any business since its date of incorporation save for the incurring of certain expenses relating to its incorporation and the Group Reorganisation. Particulars of the companies which became the Company's subsidiaries on 10 March 2004 are set out in note 26 to the proforma financial information.

The analysis of the principal activities and geographical locations of the operations of the Group pursuant to the Group Reorganisation are set out in note 25 to the proforma financial information.

## **RESULTS AND APPROPRIATIONS**

No income statement of the Company has been prepared for the period from 27 November 2003 (being the date of incorporation) to 31 December 2003 as the Company had not carried out any business. The state of the Company's affairs as at 31 December 2003 is set out in the financial statements on page 32. The proforma combined results of the Group for the year ended 31 December 2003 and the state of the Group's affairs as at that date, are set out in the proforma financial information on pages 41 to 43 of the annual report.

No dividends have been paid or declared by the Company since the date of its incorporation and no dividend will be proposed to be payable to the shareholders of the Company at the forthcoming annual general meeting. The dividends for the year ended 31 December 2003 represented the dividends paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation.

## **RESERVES**

Movements in the reserves of the Group during the year are set out in the proforma combined statement of changes in equity on pages 44 and 45 of the annual report.

## **DISTRIBUTABLE RESERVES**

At 31 December 2003, the Company had no reserve available for distribution to its shareholders.

## **SUBSIDIARIES**

Particulars of the Company's subsidiaries as at 31 December 2003 are set out in note 26 to the proforma financial information.

# Directors' Report

## **FIXED ASSETS**

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

## **BORROWINGS**

Details of the Groups' borrowings as at 31 December 2003 are set out in notes 18 and 19 to the proforma financial information.

## **SHARE CAPITAL**

Details of the movements in the authorised and issued share capital of the Company since 27 November 2003 (being the date of incorporation) are set out in note 7 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the articles of association of the Company or the relevant laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing shareholders of the Company.

## **SUMMARY FINANCIAL INFORMATION**

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 79 and 80.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares since the date of Listing and up to the date of this report.

# Directors' Report

## DIRECTORS

The Directors since 27 November 2003 (being the date of incorporation) and up to the date of this report were:

### Executive Directors

Mr. Li Wei Bo	(appointed on 1 December 2003)
Mr. Lee Cheuk Yin, Dannis	(appointed on 1 December 2003)
Mr. Cheung Chun Ming	(appointed on 1 December 2003)
Ms. Zhu Wei Li	(appointed on 1 December 2003)

### Independent non-executive Directors

Mr. Ng Kwai Sang	(appointed on 26 March 2004)
Mr. Sik Siu Kwan	(appointed on 26 March 2004)
Mr. Ng Pui Cheung, Joseph	(appointed on 26 March 2004)

In accordance with article 87 of the articles of association of the Company, Mr. Lee Cheuk Yin, Dannis and Mr. Cheung Chun Ming, will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company on 10 March 2004 for an initial term of three years commencing from 26 March 2004 and thereafter be continuous until terminated by either party giving to the other not less than two months' written notice.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company on 10 March 2004 for an initial fixed term of two years commencing from 26 March 2004.

Save as disclosed above, none of the Directors has entered into any 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 obligations.

# Directors' Report

## **EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS**

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 5 to the financial statements and note 6 to the proforma financial information.

## **RETIREMENT BENEFIT SCHEMES**

Details of the retirement benefit schemes of the Group and the employer's costs charged to the proforma combined income statement for the year are set out in note 7 to the proforma financial information.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save and except for agreements entered into for the purpose of the Group Reorganisation and those disclosed under the paragraph headed "Related party transactions" below, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT**

Biographical details of the Directors and senior management of the Group are set out on pages 16 to 19 of the annual report.

## **RELATED PARTY TRANSACTIONS**

Details of significant related party transactions of the Group are set out in note 11 to the proforma financial information.

# Directors' Report

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

The Company only became a listed company on 26 March 2004. The interests of the Directors and the chief executive of the Company in the Shares, underlying shares or debentures of the Company or 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 would have to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO) and/or required to be entered in the register referred to therein or which required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange immediately following the Listing were as follows:

<b>Name of Directors</b>	<b>Company/ associated corporation</b>	<b>Capacity/ Type of interests</b>	<b>Number of ordinary Shares</b>	<b>Approximate percentage of interests</b>
Mr. Li Wei Bo	Company	Beneficial owner/ Personal	294,464,000 (long position)	73.616%
Mr. Li Wei Bo (Note)	Company	Beneficial owner/ Personal	12,000,000 (short position)	3%
Mr. Lee Cheuk Yin, Dannis	Company	Beneficial owner/ Personal	3,200,000 (long position)	0.8%

*Note:* These Shares are the subject of the stock borrowing agreement dated 15 March 2004 and entered into between Mr. Li Wei Bo and Tai Fook Securities Company Limited.

Saved as disclosed above and the paragraph headed "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in 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.

# Directors' Report

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include any employees, directors, substantial shareholders or any of their respective associates of the Company and/or any of its subsidiaries or associated company. The Share Option Scheme became effective for a period of 10 years commencing on 10 March 2004.

The subscription price will be determined by the Directors, and will not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant of an option, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five consecutive business days immediately preceding the date of grant of an option; and (iii) the nominal value of a Share. HK\$1 is payable as consideration on acceptance of the grant of an option.

No option may be granted to any person in any 12-month period which if exercised in full will result in such person's maximum entitlement exceeding 1% of the total number of Shares in issue.

The total number of the Shares which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10% to the Shares in issue. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Options Scheme and any other share option schemes must not exceed 30% of the issued share capital of the Company from time to time. Further details of the Share Option Scheme are set out in the Prospectus.

As at the date of this report, no option has been granted or agreed to be granted to any person under the Share Option Scheme.

# Directors' Report

## SUBSTANTIAL SHAREHOLDERS

The Company became a listed company on 26 March 2004. Immediately following the Listing, the following person, not being a Director or chief executive of the Company has an interest and/or short position in the Shares, underlying shares or debentures 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:

Name	Capacity/ Type of interests	Number of ordinary Shares	Approximate percentage of interests
Ms. Gu Lily Ying ( <i>Note</i> )	Beneficial owner/ Family	294,464,000 (long position)	73.616%
Ms. Gu Lily Ying ( <i>Note</i> )	Beneficial owner/ Family	12,000,000 (short position)	3%

*Note:* Under the SFO, Ms. Gu Lily Ying, as the spouse of Mr. Li Wei Bo, is deemed to be interested in the Shares held by Mr. Li.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

# Directors' Report

## **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 73.3% of the total sales for the year and the sales attributable to the largest customer included therein accounted for approximately 46.5%. Nanjing Sanlong was one of the five largest customers of the Group.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 69.4% of the total purchases for the year and the purchases attributable to the largest supplier included therein accounted for approximately 19.8%.

Save as disclosed above, none of the Directors, any of their associates or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's Shares) had any beneficial interest in the Group's five largest customers or suppliers.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

None of the Directors or any of their respective associates had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group.

## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events are set out in note 27 to the proforma financial information.

## **OTHER MATTERS**

Subsequent to the balance sheet date of 31 December 2003, the Shares were listed on the Main Board on 26 March 2004.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

Upon the Listing, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The term of office of each independent non-executive Director is the period up to his retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

# Directors' Report

## AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 10 March 2004, which was established in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group.

The Committee comprises the three independent non-executive Directors with Mr. Ng Kwai Sang acting as Chairman.

The proforma financial information of the Group for the year ended 31 December 2003 and the balance sheet of the Company as at 31 December 2003, together with the notes attached thereto have been reviewed by the Committee, which was of the opinion that such information complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

## AUDITORS

RSM Nelson Wheeler were first appointed as auditors of the Company on 1 December 2003.

RSM Nelson Wheeler retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors

**Li Wei Bo**

*Chairman*

Hong Kong, 26 April 2004