

## Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2004.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 13 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 28.

The directors now recommend the payment of a final dividend of HK10 cents per share to the shareholders on the register of member on 6 May 2005 amounting to HK\$26,589,078.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's financial information is set out on page 4.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

### SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 18 to the financial statements.

### DISTRIBUTABLE RESERVES

As at 31 December 2004, the amount of the Company's reserves available for distribution to shareholders was HK\$56,992,475, comprising of the contributed surplus of HK\$29,411,660 and the retained profit of HK\$27,580,815.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2004, the aggregate sales attributable to the Group's largest customer and five largest customers taken together accounted for 38% and 91% respectively of the Group's total turnover for the year.



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For the year ended 31 December 2004, the aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for 31% and 90% respectively of the Group's total purchases for the year.

As far as the directors are aware, neither the directors, their associates, nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, had any interest in the five largest customers and suppliers of the Group.

### DIRECTORS

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

#### Executive directors:

Mr. Wang Xubing

Mr. Wang Zhiqiang

Mr. Jun Otaka

Mr. Shi Chongming

Mr. Siu Kwok Leung

#### Non-executive director:

Mr. Wang Nengguang

#### Independent non-executive directors:

Mr. Pang Chor Fu

Prof. Li Weian

Mr. Lee Kit Wah

In accordance with the provisions of the Company's Articles of Association, each of the directors shall retire at the forthcoming annual general meeting of the Company. All directors (other than Mr. Jun Otaka who has tendered his resignation to the Company which will take effect from the close of business on 14 April 2005) being eligible, will offer themselves for re-election at the annual general meeting.

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.

All non-executive directors have been appointed for a term of one year and either the non-executive director or the Company may terminate the appointment at any time by giving the other party at least one month's notice in writing.

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### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2004 or at any time during the year.

### DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2004, the interests and short positions of the Directors and chief executive of the Company 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 (Cap. 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register maintained by the Company under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### (a) Interests in the Company

Name of Director	Capacity/Nature of interest	No. of shares of the Company	Notes	Approximate percentage of shareholding
Mr. Wang Xubing	Interest of a controlled corporation	149,750,000 (L)	1	56.32%
Mr. Wang Zhiqiang	Interest of a controlled corporation	149,750,000 (L)	2	56.32%
Mr. Jun Otaka	Beneficial owner	500,000 (L)		0.19%
Dr. Shi Chongming	Beneficial owner	1,010,800 (L)	3	0.38%
Mr. Siu Kwok Leung	Beneficial owner	1,070,000 (L)	4	0.40%

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### Notes:

1. These shares are beneficially owned by China Way International Limited (“China Way”). By virtue of his 51% shareholding interest in China Way, Mr. Wang Xubing is deemed or taken to be interested in the 149,750,000 shares of the Company owned by China Way for the purpose of the SFO.
2. These shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way, Mr. Wang Zhiqiang is deemed or taken to be interested in the 149,750,000 shares of the Company owned by China Way for the purpose of the SFO.
3. These shares are held by Pure Finance Limited as trustee for Dr. Shi Chongming and are beneficially owned by Dr. Shi Chongming.
4. These shares are held by Pure Finance Limited as trustee for Mr. Siu Kwok Leung and are beneficially owned by Mr. Siu Kwok Leung.
5. The letter “L” denotes a long position in shares.

### (b) Interests in associated corporations of the Company

Name of associated corporation	Name of director	Capacity/Nature of interest	Number of ordinary shares of US\$1.00 each	Percentage of shareholding
China Way	Mr. Wang Xubing	Interest of a controlled corporation	51 (L)	51%
China Way	Mr. Wang Zhiqiang	Interest of a controlled corporation	49 (L)	49%

Note: The letter “L” denotes a long position in shares.

Save as disclosed above, as at 31 December 2004, there was no other Director or chief executive of the Company who had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were recorded in the register maintained by the Company under section 352 of the SFO or otherwise 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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### DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31 December 2004, no option was granted to Directors to acquire shares in the Company. 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 that enabled any Directors to acquire such rights in any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following parties (other than the Directors or the chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested, or had short positions, in the shares and underlying shares of the Company.

Name of shareholder	Capacity/ Nature of interest	No. of shares of the Company	Note	Approximate percentage of shareholding
China Way	Beneficial owner	149,750,000 (L)		56.32%
Legend New-Tech Investment Limited	Beneficial owner	22,960,782 (L)		8.64%
Right Lane Limited	Interest of a controlled corporation	22,960,782 (L)	1	8.64%
Legend Holdings Limited	Interest of a controlled corporation	22,960,782 (L)	2	8.64%
Chinese Academy of Sciences Holdings Co., Ltd.	Interest of a controlled corporation	22,960,782 (L)	3	8.64%
Employee's Stock Society of Legend Holdings Limited	Interest of a controlled corporation	22,960,782 (L)	4	8.64%
Madam Zhang Yue	Interest of spouse	149,750,000 (L)	5	56.32%
Madam Yuan Yue Ling	Interest of spouse	149,750,000 (L)	6	56.32%



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### Notes:

1. Right Lane Limited is beneficially interested in the entire issued share capital of Legend New-Tech Investment Limited (“Legend New-Tech”). By virtue of its 100% interest in Legend New-Tech, Right Lane Limited is deemed or taken to be interested in the 22,960,782 shares beneficially owned by Legend New-Tech.
2. Legend Holdings Limited is beneficially interested in the entire issued share capital of Right Lane Limited. By virtue of its 100% interest in Right Lane Limited, Legend Holdings Limited is deemed or taken to be interested in the 22,960,782 shares beneficially owned by Legend New-Tech.
3. Chinese Academy of Sciences Holdings Co., Ltd. is beneficially interested in a 65% equity interest in Legend Holdings Limited. By virtue of its interest in Legend Holdings Limited, Chinese Academy of Sciences Holdings Co., Ltd. is deemed or taken to be interested in the 22,960,782 shares beneficially owned by Legend New-Tech.
4. Employee’s Stock Society of Legend Holdings Limited is beneficially interested in 35% equity interest in Legend Holdings Limited. By virtue of its interest in Legend Holdings Limited, Employee’s Stock Society of Legend Holdings Limited is deemed or taken to be interested in the 22,960,782 shares beneficially owned by Legend New-Tech.
5. Madam Zhang Yue is the wife of Mr. Wang Xubing and is deemed to be interested in the 149,750,000 shares in which Mr. Wang Xubing is deemed or taken to be interested for the purposes of the SFO.
6. Madam Yuan Yue Ling is the wife of Mr. Wang Zhiqiang and is deemed to be interested in the 149,750,000 shares in which Mr. Wang Zhiqiang is deemed or taken to be interested for the purposes of the SFO.
7. The letter “L” denotes a long position in shares.

Save as disclosed above, as at 31 December 2004, there was no other person (not being a Director or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept under section 336 of the SFO.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SECURITIES**

During the period from the date of listing of the Company to 31 December 2004, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

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### SHARE OPTION SCHEME

Particulars of the Company's share option schemes and options granted during the year to subscribe for shares of HK\$0.10 each in the Company under the share option schemes are, set out in note 20 to the financial statements.

As disclosed in note 20 to the financial statements, the Company has granted options in respect of a total number of 17,730,000 shares to the Group's employees during the year. The fair value of the options granted by the Company during the year totalled approximately HK\$16,312,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- (1) an expected volatility of 37%;
- (2) expected dividend yield of 2.5%;
- (3) the estimated expected life of the options granted during the year is ten years; and
- (4) The corresponding ten-year Hong Kong Exchange Fund Notes interest rate at the date of the options granted is 3.6%.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, which can materially affect the fair value estimate. Thus, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of value of options granted during the year.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangement 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.



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### EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the salary review committee on the basis of their merit, qualifications and competence.

The emolument of directors of the Company are proposed by the salary review committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to eligible employees, details of the scheme is set out in note 20 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions 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.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, there was sufficiency of public float of the Company's securities as required under the Listing Rules.

### CORPORATE GOVERNANCE

Throughout the period from its date of listing to 31 December 2004, the Company had complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules which was in force prior to 1 January 2005.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. Having made specific enquiry of all directors, all directors confirmed they had complied with the required standard set out in the Model Code during the period from the date of listing of the Company to 31 December 2004.

The Company has received a written confirmation in respect of independence from each of the independent non-executive directors of the Company in compliance with rule 3.13 of the Listing Rules and the Company still considers that each of them to be independent.



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### AUDITORS

Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years.

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

On behalf of the Board

**Wang Zhiqiang**

*Director*

Hong Kong, 30 March 2005