

# Report of the Directors

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The directors present their report together with the audited financial statements for the year ended 31st December, 2005.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 37 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 40.

The directors declared an interim dividend of 2.0 Hong Kong cents per ordinary share, totalling approximately HK\$7,201,000 for the six months ended 30th June, 2005 (2004: HK\$Nil).

The directors recommend the payment of a final dividend of 5.0 Hong Kong cents per ordinary share, totalling approximately HK\$18,002,000 for the year ended 31st December, 2005 (2004: HK\$Nil).

## RESERVES

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company shall not be distributed to the shareholders if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

As at 31st December, 2005, the Company had distributable reserves amounting to HK\$171,174,000 (2004: HK\$132,195,000), including contributed surplus of HK\$165,739,000 (2004: HK\$165,739,000) which is distributable subject to conditions as set out above.

Movements in the reserves of the Group and the Company during the year are set out in Note 32 to the financial statements.

## DONATIONS

Charitable donations made by the Group during the year amounted to HK\$46,800 (2004: HK\$36,000).

## PROPERTIES, PLANT AND EQUIPMENT

Details of the movements in properties, plant and equipment of the Group during the year are set out in Note 15 to the financial statements.

## **PRINCIPAL PROPERTIES**

Details of the principal properties held for investment purposes are set out in Note 16 to the financial statements.

## **SHARE CAPITAL**

Details of the movements in the share capital of the Company are set out in Note 31 to the financial statements.

## **SUBSIDIARIES**

Particulars of the Company's principal subsidiaries are set out in Note 37 to the financial statements.

## **BANK BORROWINGS**

Particulars of bank borrowings of the Group are set out in Note 28 to the financial statements.

## **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 7.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## **SHARE OPTIONS**

Under the terms of the share option scheme of the Company adopted on 23rd February, 2000 (the "Old Scheme"), the directors of the Company granted options to certain full-time employees (including executive directors) of the Company or its subsidiaries on 31st August, 2001 to subscribe for a total of 36,000,000 shares in the Company at HK\$0.906 per share. The Old Scheme was subsequently terminated and replaced by a new share option scheme (the "New Scheme") on 8th May, 2002. The provisions of the Old Scheme remain in force and all outstanding options granted prior to the said termination continue to be valid and exercisable in accordance therewith.

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Under the Old Scheme, the share options were exercisable from 1st September, 2002 to 31st August, 2005. All unexercised share options lapsed on 1st September, 2005 and the details of these share options are as follows:

	Number of options					Exercise price HK\$	Grant date	Exercise from	Exercise until
	Held at 1st January, 2005	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31st December, 2005				
Director Mr Rusli Hendrawan ("Mr Rusli")	8,000,000	-	-	(8,000,000)	-	0.906	31st August, 2001	1st September, 2002	31st August, 2005
Director Mr Lee Sheng Kuang, James ("Mr Lee")	8,000,000	-	-	(8,000,000)	-	0.906	31st August, 2001	1st September, 2002	31st August, 2005
Director Mr Oey Tije Ho ("Mr Oey")	2,000,000	-	-	(2,000,000)	-	0.906	31st August, 2001	1st September, 2002	31st August, 2005
Director Mr Tang Chak Lam, Charlie ("Mr Tang")	2,000,000	-	-	(2,000,000)	-	0.906	31st August, 2001	1st September, 2002	31st August, 2005
Continuous contract employees	11,616,000	-	-	(11,616,000)	-	0.906	31st August, 2001	1st September, 2002	31st August, 2005
	<u>31,616,000</u>	<u>-</u>	<u>-</u>	<u>(31,616,000)</u>	<u>-</u>				

No share options were exercised or cancelled during the year.

The principal terms of the New Scheme are as follows:

**(i) Purpose**

The purpose of the New Scheme is to provide incentives to qualifying participants to contribute to the Group and/or to enable the Group to recruit and/or to retain high-calibre employees and attract resources that are valuable to the Group.

**(ii) Qualifying participants**

Any person being an employee, director (including executive or non-executive director), consultant, representative, professional adviser, customer, business partner, joint venture partner, strategic partner, landlord or tenant of, or any supplier or provider of goods or services, to the Group, and any trustee(s) of a discretionary trust of which one or more beneficiaries belong to any of the abovementioned category(ies) of persons.

**(iii) Maximum number of shares**

The total number of shares available for issue under the New Scheme is 18,840,000 which is 5.23% of the issued share capital as at the date of this Annual Report.

**(iv) Maximum entitlement of each qualifying participant**

No qualifying participant shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 1% of the aggregate number of shares for the time being issued and issuable under the New Scheme.

**(v) Option period**

In respect of any particular option, such period commencing on the date of grant or such later date as the directors may decide and expiring on such date as the directors may determine, such period not to exceed 10 years from the date of grant.

**(vi) Acceptance of offer**

An offer of the grant of an option shall remain open for acceptance for a period of 30 days from the date on which the option is offered. An offer of the grant of the option shall be deemed to have been accepted when the duplicate offer document constituting acceptance of the option duly signed by the grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration of the grant thereof is received by the Company.

**(vii) Subscription price**

The subscription price in respect of any particular option shall be such price as the directors may determine at the date of grant of the relevant option but shall not be less than whichever is the greater of:

- (a) The closing price of the shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant;
- (b) The average official closing price of the Company's shares as stated in the daily quotations sheets in the Stock Exchange for the five business days immediately preceding the date of grant; and
- (c) The nominal value of the Company's shares.

**(viii) The remaining life of the New Scheme**

The directors shall be entitled at any time within 10 years commencing on 8th May, 2002 to offer the grant of an option to any qualifying participants.

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Details of share options under the New Scheme granted during the year and outstanding as at 31st December, 2005 are as follows:

	Number of options				Held at 31st December, 2005	Exercise price HK\$	Grant date	Exercise from	Exercise until
	Held at 1st January, 2005	Granted during the year	Exercised during the year	Lapsed during the year					
Director Mr Rusli	-	3,600,000	-	-	3,600,000	0.536	25th October, 2005	1st November, 2005	31st October, 2008
Director Mr Lee	-	3,600,000	-	-	3,600,000	0.536	25th October, 2005	1st November, 2005	31st October, 2008
Director Mr Oey	-	500,000	-	-	500,000	0.536	25th October, 2005	1st November, 2005	31st October, 2008
Director Mr Tang	-	2,000,000	-	-	2,000,000	0.536	25th October, 2005	1st November, 2005	31st October, 2008
Continuous contract employees	-	7,460,000	-	-	7,460,000	0.536	25th October, 2005	1st November, 2005	31st October, 2008
	-	<u>17,160,000</u>	-	-	<u>17,160,000</u>				

No share options were exercised or cancelled during the year.

## DIRECTORS

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

Mr Rusli Hendrawan (*Chairman*)

Mr Lee Sheng Kuang, James (*Managing Director*)

Mr Oey Tjie Ho

Mr Tang Chak Lam, Charlie

Mr Cheung Kwok Ming\*

(*appointed on 27th April, 2005*)

Mr Kwok Lam Kwong, Larry, J.P.\*

Mr Lau Siu Ki, Kevin\*

Mr Lam Chi Kuen, Frank\*

(*resigned on 27th April, 2005*)

\* *Independent Non-Executive Director*

In accordance with Bye-law 87 of the Company's Bye-laws, Mr Rusli Hendrawan and Mr Lee Sheng Kuang, James shall retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

Upon the expiry of the three year service contract on 31st December, 2005, each of the executive directors has entered into a new service contract with the Company for a term of three years commencing from 1st January, 2006, which may be terminated by either party thereto giving to the other party six months' prior notice in writing.

Save as disclosed above, none of the directors who are 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

No contracts of significance in relation to the Group's business to which the 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.

## CONNECTED TRANSACTIONS

- (a) On 5th March, 2004, ShanDong WeiQiao HengFu Textile Limited ("SWHT"), a sino-foreign equity joint venture company, which was then owned as to 60% by Sino Precision Limited ("SPL"), a 66.7% owned subsidiary of the Company, and 40% by Shandong Weiqiao Chuangye Group Company Limited ("SDWQ"), entered into electricity and steam supply agreement, water supply agreement and waste water treatment service agreement (collectively the "Supply Agreements") with SDWQ. Under the Supply Agreements, SDWQ agrees to supply electricity, steam and water and provides waste water treatment service to SWHT for a term of 15 years commencing from the date of the Supply Agreements, which are automatically renewed for another 10 years upon expiry of their respective terms unless terminated by either party.

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On 5th March, 2004, SDWQ also signed a written undertaking (the "Written Undertaking") under which SDWQ undertakes with SWHT that SDWQ shall, upon SWHT's reasonable request from time to time, request Weiqiao Textile Company Limited ("WQT") (or procure its subsidiaries) to supply cotton yarn to SWHT in accordance with the terms of the Raw Materials Agreement as defined herein commencing from the date of the Written Undertaking to the date of the termination of the Raw Materials Agreement. "Raw Materials Agreement" refers to the supply of products, raw materials and processing services agreement entered into between SDWQ and WQT on 25th August, 2003 for a term of 3 years, which is automatically renewed for another 3 years upon expiry of its term unless terminated by either party. Pursuant to the Raw Materials Agreement, WQT and/or its subsidiaries agreed to supply cotton yarn to SDWQ and its subsidiaries and associates. WQT is a subsidiary of SDWQ.

As announced by the Company on 19th May, 2005, SPL entered into an agreement (the "Agreement") dated 18th May, 2005 with SDWQ whereby it was agreed that the registered capital of SWHT, a then 60% owned indirect subsidiary, was increased where the additional registered capital was solely contributed by SDWQ. Upon the increase in the registered capital of SWHT, the Group's interest in SWHT was diluted from 60% to 40%. Such dilution of interest was treated as a deemed disposal by the Group of an interest in SWHT under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Upon completion of the Agreement, SWHT ceased to be a subsidiary of the Company and the transactions contemplated by the Supply Agreements and the Raw Materials Agreement pursuant to the Written Undertaking would no longer be connected transactions under the Listing Rules. However, for the period from 1st January, 2005 to 24th June, 2005, SDWQ and WQT were connected persons of the Company in the following manner:

- (i) SDWQ was a substantial shareholder of SWHT and SWHT was a subsidiary of the Company, SDWQ was a connected person of the Company.
- (ii) WQT was a subsidiary of SDWQ which was a substantial shareholder of SWHT and SWHT was a subsidiary of the Company, WQT was also a connected person of the Company.

For the period from 1st January, 2005 to 24th June, 2005, the total consideration paid by SWHT to SDWQ under the electricity and steam supply agreement, water supply agreement and waste water treatment service agreement amounted to HK\$1,207,000, HK\$20,000 and HK\$117,000 respectively and the total consideration paid by SWHT to WQT under the Raw Materials Agreement amounted to HK\$10,231,000.

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The independent non-executive directors of the Company have reviewed the transactions for the period from 1st January, 2005 to 24th June, 2005 and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Company and SWHT;
- (ii) on normal commercial terms; and
- (iii) in accordance with the Supply Agreements and the Raw Materials Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have confirmed to the board of directors that the transactions for the period from 1st January, 2005 to 24th June, 2005:

- (i) have received the approval of the Company's board of directors;
  - (ii) have been entered into in accordance with the terms of the Supply Agreements and the Raw Materials Agreement; and
  - (iii) have not exceeded the caps (on a pro-rated basis) as disclosed in the Company's announcement dated 16th March, 2004.
- (b) On 13th September, 2001, a management services agreement (the "Management Services Agreement") was entered into between Carry Wealth Limited ("CWL"), a wholly-owned subsidiary of the Company, and Shinning Century Limited ("SCL") pursuant to which, CWL provides SCL with management services in Hong Kong at a management fee at 6% of the total sales at the invoiced value to customers of SCL for each calendar month. The term of the Management Services Agreement, which is automatically renewed annually unless terminated by either party, as amended by a supplemental agreement dated 6th September, 2004 entered between CWL and SCL (the "Supplemental Agreement") will expire on 31st August, 2007 and be automatically renewed every 3 years and until terminated pursuant to the terms thereof for the purpose of complying with Chapter 14A of the Listing Rules.

SCL is owned as to 70% by the Company indirectly and 30% by Ms Chen Mei Chuan, Jennifer. Ms Chen is also the managing director of SCL. The ongoing transactions between CWL and SCL as aforesaid constitute connected transactions for the Company under the Listing Rules.

The independent non-executive directors of the Company have reviewed the transactions and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Company and CWL;
- (ii) on normal commercial terms; and
- (iii) in accordance with the Management Services Agreement (as amended by the Supplemental Agreement) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.



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The auditors of the Company have confirmed to the board of directors that the transactions:

- (i) (1) have received the approval of the Company's board of directors;
- (2) are in accordance with the pricing policies of the Company;
- (3) have been entered into in accordance with the terms of the Management Services Agreement (as amended by the Supplemental Agreement); and
- (ii) the aggregate amount of management fees charged by CWL amounted to HK\$6,498,000 which did not exceed the cap amount of HK\$8,000,000 as disclosed in the Company's announcement dated 8th September, 2004.

## INTERESTS OF DIRECTORS

As at 31st December, 2005, the interests of the directors of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (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 Issuers (the "Model Code") are as follows:

### (a) Ordinary shares of HK\$0.10 each in the Company

Name of director	Capacity	Number of ordinary shares	Percentage of issued share capital
Mr Rusli	Interest of a controlled corporation	162,000,000 ( <i>Note</i> )	45.00
Mr Lee	Interest of a controlled corporation	162,000,000 ( <i>Note</i> )	45.00

*Note:*

These shares were held by Respected International Limited ("RIL"), which was ultimately owned as to 37.50% and 45.83% by Mr Rusli and Mr Lee respectively through their respective wholly-owned companies.

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## (b) Derivatives to ordinary shares of HK\$0.10 each in the Company

Name of director	Capacity	Unlisted options (physically settled equity derivatives) held	Percentage of issued share capital
Mr Rusli	Beneficial owner	3,600,000	0.99
Mr Lee	Beneficial owner	3,600,000	0.99
Mr Oey	Beneficial owner	500,000	0.13
Mr Tang	Beneficial owner	2,000,000	0.55

*Note:*

The above share options were granted to directors under the New Scheme as defined in the section headed "SHARE OPTIONS" above. None of the share options has been exercised.

All the interests stated above represent long positions. Save as disclosed above, as at 31st December, 2005, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the interests of the substantial shareholders (as defined in the Listing Rules), other than directors or chief executives, of the Company in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

### Ordinary shares of HK\$0.10 each in the Company

Name of shareholder	Capacity	Number of ordinary shares	Percentage of issued share capital
RIL ( <i>Note 1</i> )	Beneficial owner	162,000,000	45.00
Greatwood Investment Trading Limited ( <i>Note 2</i> )	Beneficial owner	61,900,000	17.19
Mr Susanto ( <i>Note 2</i> )	Interest of a controlled corporation	61,900,000	17.19

*Notes:*

- 162,000,000 shares in the Company were held by RIL, a company in which Mr Rusli and Mr Lee held 37.50% and 45.83% equity interests respectively. Accordingly, both Mr Rusli and Mr Lee were deemed to be interested in 162,000,000 shares in the Company. These interests were the same interests of Mr Rusli and Mr Lee as disclosed in the section headed "INTERESTS OF DIRECTORS".
- These shares were held by Greatwood Investment Trading Limited, which was wholly-owned by Mr Susanto.

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All the interests stated above represent long positions. Save as disclosed above, as at 31st December, 2005, none of the substantial shareholders, other than directors or chief executives, of the Company had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## INTERESTS OF OTHER PERSONS

Save as disclosed in the sections headed "INTERESTS OF DIRECTORS" and "INTERESTS OF SUBSTANTIAL SHAREHOLDERS" above, the register required to be kept under section 336 of the SFO shows that as at 31st December, 2005, the Company had not been notified of any other person who had an interest or short position in the shares and underlying shares of the Company.

## MANAGEMENT CONTRACTS

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

## MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

(i)	Purchases	
	– the largest supplier	27%
	– five largest suppliers combined	51%
(ii)	Sales	
	– the largest customer	49%
	– five largest customers combined	82%

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above at any time during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Laws of Bermuda.

## AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board  
**Lee Sheng Kuang, James**  
*Managing Director*

Hong Kong, 23rd March, 2006