

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 16 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 32.

The directors now recommend the payment of a final dividend of HK\$11 cents per share to the shareholders on the register of member on 4 May 2006 amount to HK\$29,718,456 on the basis that no further shares are issued or repurchased prior to that date.

## 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 14 to the financial statements.

## SHARE CAPITAL

Details of movements in the Group's share capital are set out in note 21 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2005, the amount of the Company's reserves available for distribution to shareholders was approximately HK\$58,092,634, comprising of the contributed surplus of approximately HK\$29,411,660 and the retained profit of approximately HK\$28,680,974.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the aggregate sales attributable to the Group's largest customer and five largest customers taken together accounted for 41% and 91% respectively of the Group's total turnover for the year.

For the year ended 31 December 2005, the aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for 18% and 56% 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  
Dr. 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, one third of the directors for the time being will retire by rotation and being eligible, offer themselves for re-election.

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.

### 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 a director of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2005 or at any time during the year.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE AND SHARE OPTIONS

As at 31 December 2005, the interests and short positions of the Directors and chief executives 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

<b>Name of Director</b>	<b>Capacity/Nature of interest</b>	<b>No. of shares of the Company</b>	<i>Notes</i>	<b>Approximate percentage of shareholding</b>
Mr. Wang Xubing	Interest of a controlled corporation	140,750,000 (L)	1	52.10%
Mr. Wang Zhiqiang	Interest of a controlled corporation	140,750,000 (L)	2	52.10%
Dr. Shi Chongming	Beneficial owner	1,010,800 (L)		0.37%
Mr. Siu Kwok Leung	Beneficial owner	1,070,000 (L)		0.40%

*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 140,750,000 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 140,750,000 shares of the Company owned by China Way for the purpose of the SFO.
3. The letter "L" denotes a long position in shares.

**(b) Interests in shares of associated corporations of the Company**

<b>Name of associated corporation</b>	<b>Name of director</b>	<b>Capacity/Nature of interest</b>	<b>Number of ordinary shares of US\$1.00 each</b>	<b>Percentage of shareholding</b>
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 2005, there was no other Director or chief executives 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31 December 2005, 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 2005, 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.

<b>Name of shareholder</b>	<b>Capacity/Nature of interest</b>	<b>No. of shares of the Company</b>	<i>Notes</i>	<b>Approximate percentage of shareholding</b>
China Way Int'l Ltd	Beneficial owner	140,750,000 (L)		52.10%
Wang Xubing	Interest of a controlled corporation	140,750,000 (L)		52.10%
Wang Zhiqiang	Interest of a controlled corporation	140,750,000 (L)		52.10%
Legend New-Tech Investment Limited	Beneficial owner	14,960,782 (L)		5.54%
Right Lane Limited	Interest of a controlled corporation	14,960,782 (L)	1	5.54%
Legend Holdings Limited	Interest of a controlled corporation	14,960,782 (L)	2	5.54%
Chinese Academy of Sciences Holdings Co., Ltd.	Interest of a controlled corporation	14,960,782 (L)	3	5.54%
Employee's Stock Society of Legend Holdings Limited	Interest of a controlled corporation	14,960,782 (L)	4	5.54%
Madam Zhang Yue	Interest of spouse	140,750,000 (L)	5	52.10%
Madam Yuan Yue Ling	Interest of spouse	140,750,000 (L)	6	52.10%
Sloane Robinson LLP	Investment Manager	13,602,000 (L)		5.03%

*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 14,960,782 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 14,960,782 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 14,960,782 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 14,960,782 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 140,750,000 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 140,750,000 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, 2005, 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.

## **SHARE OPTION SCHEMES**

Particulars of the Company's share option schemes and details of movements in the Company's share options during the year to subscribe for shares of HK\$0.10 each in the Company granted under the share option schemes are, set out in note 22 to the financial statements.

As disclosed in note 22 to the financial statements, the Company has granted a total number of 17,730,000 options to the Group's employees on 10 November 2004. The fair value of the options granted totalled approximately HK\$12,207,105. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- (1) an expected volatility of 39%;
- (2) expected dividend yield of 2.5%;
- (3) the estimated expected life of the options granted during the year is four years; and
- (4) the corresponding four-year Hong Kong Exchange Fund Notes interest rate at the date of the options granted is 2.48%.

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.

In the current year, an amount of share option expense of HK\$4,077,665 has been recognised, with a corresponding adjustment recognised in the Group's share option reserve.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section "share option scheme", 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.

### EMOLUMENT POLICY

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

The emolument of directors of the Company are decided by 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 are set out in note 22 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

The Company has maintained a sufficient public float throughout the year ended 31 December 2005.

## CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") except that Mr Wang Zhiqiang has been both the Chairman and Chief Executive Officer of the Company. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule. Having made specific enquiry of all directors, all directors confirmed they have complied with the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received a written confirmation in respect of independence from each of the Independent Non-executive director 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.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

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



## 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 2006