

Report of the Directors

The board of Directors (“Board”) of Dawnrays Pharmaceutical (Holdings) Limited (the “Company”) submit their first report together with the audited accounts for the year ended 31 December 2003.

GROUP REORGANIZATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 20 September 2002 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The companies comprising the Group underwent a reorganization on 21 June 2003 to rationalize the Group’s structure in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which the Company became the holding company within the Group.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 11 July 2003.

The consolidated financial statements have been prepared by adopting uniting of interests method of accounting as a result of the Group Reorganization which involved entities under common control. Under this method, the Company has been treated as the holding company of its subsidiaries for the two years ended 31 December 2003 rather than from the date of acquisition of the subsidiaries. The consolidated results, changes in equity, cash flows and the consolidated balance sheets of the companies now comprising the Group have been prepared as if the current Group structure had been in existence throughout the two years, or from the respective dates of establishment/incorporation of the companies now comprising the Group, where this is a shorter period.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

All significant intra-group transactions and balances have been eliminated on consolidation.

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 17 to the accounts. The Group is principally engaged in the development, manufacture and sale of non-patented chemical medicines including cephalosporins in sterile bulk medicine and powder for injection forms, their intermediate pharmaceuticals and system specific medicines in the People’s Republic of China (the “PRC”).

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 38.

The Board recommends the payment of a final dividend of HK\$0.035 per share for the year ended 31 December 2003.

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 pages 40 and 41 and in note 26 to the accounts.

DONATIONS

No charitable and other donations were made by the Group during the year.

SUBSIDIARIES

Details of the Company's subsidiaries, as at 31 December 2003, are set out in note 17 to the accounts.

FIXED ASSETS AND LAND-USE-RIGHTS

Details of the movements in fixed assets and land-use-rights of the Group and the Company are set out in notes 13 and 14 to the accounts, respectively.

With reference to the valuation of the Group's property interest pursuant to Appendix II to the Company's prospectus dated 30 June 2003, a revaluation surplus of approximately RMB4,941,000 arose. Such a revaluation surplus was not recorded in the Group's financial statements as the Group accounts for its property interests at cost. If such revaluation surplus was included in the Group's financial statements for the year ended 31 December 2003, an additional depreciation charge of approximately RMB276,000 per annum would be incurred.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 24 to the accounts.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group are set out in note 9 to the accounts.

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 RMB237,388,000 (2002: nil).

Report of the Directors

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Ms. Li Kei Ling

Mr. Hung Yung Lai

Mr. Zhang Jing Xing (appointed on 1 June 2003)

Mr. Lam Kam Wah (appointed on 1 June 2003)

Mr. Li Tung Ming (appointed on 14 January 2004)

Mr. Xu Kehan (appointment with effect from 17 March 2004)

Non-Executive Director

Mr. Sik Siu Kwan Gary (appointed on 1 September 2003 and resigned on 13 January 2004)

Independent Non-Executive Directors

Mr. Pan Xue Tian (appointed on 1 June 2003)

Mr. Wang Gui Guo (appointed on 1 June 2003 and resigned on 25 November 2003)

Mr. Lee Cheuk Yin Dannis (appointed on 25 November 2003)

In accordance with the Company's Articles of Association, all directors will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Zhang Jing Xing and Mr. Lam Kam Wah has each entered into a service contract with the Company for a term of two years from 1 July 2003 and will continue thereafter until terminated by not less than three month's notice in writing served by either party on the other. Each of the above four executive Directors is entitled to a basic salary which will be reviewed at the discretion of the Board after she or he has completed 12 months of service and a discretionary bonus payable at the absolute discretion of the Board. The current basic annual salary of each of Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Zhang Jing Xing and Mr. Lam Kam Wah amounts to approximately HK\$360,000, HK\$360,000, HK\$1,440,000 and HK\$646,000 respectively.

Mr. Li Tung Ming has entered into a service contract with the Company for a term of two years from 14 January 2004 and will continue thereafter until terminated by not less than three month's notice in writing served by either party on the other. Mr. Li is entitled to a basic annual salary of HK\$360,000 which will be reviewed at the discretion of the Board after he has completed 12 months of service and a discretionary bonus payable at the absolute discretion of the Board.

Each of Mr. Pan Xue Tian and Mr. Lee Cheuk Yin, Dannis has been appointed as an independent non-executive Director for a period commencing on 1 July 2003 and 25 November 2003 respectively to 30 June 2005. Mr. Lee and Mr. Pan are currently entitled to an annual remuneration of HK\$72,000 and HK\$72,000 respectively. Save for the above director fee, the two independent non-executive Directors are not entitled to any other remuneration.

Mr. Xu Kehan is appointed as executive Director with effect from 17 March 2004. It is proposed that Mr. Xu will enter into a service agreement with the Company for an initial term of three years commencing from 17 March 2004 and will continue thereafter until terminated by not less than three month's notice in writing served by either party on the other. The basic annual salary of Mr. Xu Kehan is expected to amount to approximately HK\$504,000.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting, namely, Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Zhang Jing Xing, Mr. Lam Kam Wah, Mr. Li Tung Ming, Mr. Xu Kehan, Mr. Pan Xue Tian and Mr. Lee Cheuk Yin Dannis, has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Further details of the Directors' emoluments are set out in note 7 to the accounts.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Ms. LI, Kei Ling (李其玲女士), aged 55, is an executive Director and the Chairman of the Company and is one of the founders of the Group. Ms. Li has over twenty years of experience in corporate management in respect of strategic planning, business operations and finance, in particular for pharmaceutical enterprises in the PRC. She is responsible for the overall planning and implementation of corporate development, financial management and strategies formulation of the Group. Ms. Li is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, Suzhou Dawnrays Pharmaceutical Technology Co., Ltd, Shanghai Dawnrays Chemical Co., Ltd, Suzhou Dawnrays Chemical Co., Ltd and Dawnrays International Company Limited. Ms. Li had been an executive director of Sing Lee Software (Group) Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Ms. Li resigned from the position of executive director of Sing Lee Software (Group) Limited with effect from 6 January 2004.

Mr. HUNG, Yung Lai (熊融禮先生), aged 59, is an executive Director and one of the founders of the Group. Mr. Hung holds a degree from Shanghai Conservatory of Music (上海音樂學院). He has over twenty years of experience in corporate management in respect of strategic planning and corporate development, and has participated in the founding and managing of pharmaceutical and high-tech enterprises. In particular, Mr. Hung has developed expertise in the pharmaceutical and computer software industries in the PRC. Mr. Hung is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, Suzhou Dawnrays Pharmaceutical Technology Co., Ltd, Shanghai Dawnrays Chemical Co., Ltd, Suzhou Dawnrays Chemical Co., Ltd and Dawnrays International Company Limited. Mr. Hung is an executive director and the chairman of Sing Lee Software (Group) Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

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Mr. ZHANG, Jing Xing (張京星先生), aged 48, is an executive Director and the President of the Company. Mr. Zhang has over twenty years of experience in corporate management, production, marketing and research and development in pharmaceutical enterprises. He previously was the vice general manager of 中國珠海經濟特區麗珠醫藥集團股份有限公司 (Livzon Pharmaceutical Group Inc.) and has developed a deep understanding of the pharmaceutical industry in the PRC. Mr. Zhang joined the Group in September 1996 and is responsible for overseeing the operations of the Group. Mr. Zhang is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, Suzhou Dawnrays Pharmaceutical Technology Co., Ltd, Shanghai Dawnrays Chemical Co., Ltd, and Suzhou Dawnrays Chemical Co., Ltd.

Mr. LAM, Kam Wah (林錦華先生), aged 50, is an executive Director and the Vice President of the Company. He graduated from the Chinese University of Hong Kong with a bachelor's degree in social sciences. Mr. Lam has over fifteen years of experience in pharmaceutical trading and enterprise administration management. He joined the Group in December 1995 and is responsible for overseeing the international businesses and daily administration of the Group. Mr. Lam is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd and Suzhou Dawnrays Chemical Co., Ltd.

Mr. LI, Tung Ming (李東明先生), aged 55, is an executive Director of the Company. Mr. Li has over twenty years of experience in the pharmaceutical industry in the PRC, and began his career in product development, promotion, sales and corporate management in the pharmaceutical market in the PRC in 1980. Mr. Li joined the Group in April 2000, and is responsible for the development and promotion of the Group's new products. Mr. Li is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, Shanghai Dawnrays Chemical Co., Ltd and Suzhou Dawnrays Chemical Co., Ltd.

Mr. XU, Kehan (許克寒先生), aged 31, is appointed as an executive director (finance) of the Company with effect from 17 March 2004. Mr. Xu is responsible for the corporate investments policy formulation and implementation, capital planning, investor relations, risk management, strategic positioning and corporate policy research. Mr. Xu has served the Group as the Strategic Adviser to the Chairman of the Board and the Chief Investment Officer of the Group. Mr. Xu holds a master's degree in Business Administration from the University of Miami in the USA with specialization in Investments. Mr. Xu is currently the Doctoral Candidate (part-time) in Strategic Management of the Graduate School of Business of the Hong Kong Polytechnic University. Mr. Xu joined the Group in November 2003.

Independent non-executive Directors

Mr. PAN, Xue Tian (潘學田先生), aged 67, is an independent non-executive Director of the Company. He joined the Group in June 2003. Mr. Pan is the Vice President and the Secretary General of 中華醫院管理學會 (the Chinese Hospital Association), an adviser to 中國藥典委員會 (Pharmacopoeia Commission of the PRC) and the president of 中國保健科技學會 (the Health Care Science and Technology Society of China). Mr. Pan has extensive experience in drug administration and supervision, medical hygiene and hospital management, and has assumed various senior management positions in the Ministry of Health of the PRC. Mr. Pan graduated from the medicine faculty of 中國大連醫學院 (Dalian Medical University of the PRC).

Mr. LEE, Cheuk Yin Dannis (李卓然先生), aged 33, is an independent non-executive director of the Company. Mr. Lee joined the Group in November 2003. Mr. Lee is a first class honours graduate of Bachelor of Business Administration from Texas A&M university in the USA and is an associate member of the Hong Kong Society of Accountants and a member of the American Institute of Certified Public Accountants. From 1992 to 1995, Mr. Lee worked in an international accounting firm as a senior accountant. From 1995 to 1996, Mr. Lee worked in Philip Morris Asia Inc. as a senior accountant. From 1996 to 2001, Mr. Lee worked in an international accounting firm as a manager. Mr. Lee is an executive director and financial controller of Vision Grande Group Holdings Limited. Mr. Lee is an executive director of Norstar Founders Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lee is also an independent non-executive director of Geely Automobile Holdings Limited (formerly known as Guorun Holdings Limited), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Senior Management

Apart from the Directors, the senior management of the Group includes:

Mr. GAO, Yi (高毅先生), aged 49, is the Managing Vice President of the Company, responsible for overseeing the PRC operation of the Group. Mr. Gao graduated from 廣州市衛生中等技術專科學校 (藥業專業) (Guangzhou Health Secondary Technical School (pharmaceutical profession)) and 廣州醫科大學 (醫科專業) (Guangzhou Medical University (medical profession)). Mr. Gao has been working at 廣州市藥品檢驗所 (Guangzhou Institute for Drug Control) as a medical inspector for seven years. From 1994 to 2003, Mr. Gao has been the deputy general manager and general manager of 石家莊石藥集團聯合製藥廠 (Shijiazhuang Shiyao Group Union Pharmaceutical Factory) and 珠海經濟特區麗康醫藥有限公司 (Zhuhai Economic Zone Li Kang Pharmaceuticals Company Limited) respectively for five years each. Mr. Gao joined the Group in July 2003.

Mr. ZHAO, Shi Xi (趙是熙先生), aged 39, is the Vice President of the Company and the General Manager of Suzhou Dawnrays Pharmaceuticals Co., Ltd. Mr. Zhao is a pharmaceuticals engineer and obtained a master's degree in inorganic chemistry from 蘇州大學 (Suzhou University) and was a practical assistant teacher of Suzhou Vocational University in basic chemistry for six years. Before joining the Group, Mr. Zhao was the chief officer of the quality control department of 蘇州中化藥品工業有限公司 (Suzhou Chung-Hwa Chemical & Pharmaceutical Industrial Co. Ltd.). Mr. Zhao joined the Group in May 1997 and is responsible for supervising the production and research and development activities of the Group.

Mr. SUN, Ming Yao (孫明耀先生), aged 45, is the Head of Sales of the Company. Mr. Sun has over twenty years of experience in sales, marketing and business development and held managerial positions in pharmaceutical trading companies including 蘇州醫藥採購供應站 (Suzhou Pharmaceuticals Supply Station) and 蘇州藥品經營公司 (Suzhou Pharmaceuticals Trading Company) before joining the Group in September 1998.

Ms. BAO, Xiao Qun (包曉群女士), aged 38, is the Head of Training of the Company. She obtained a master's degree in neurology and a doctorate degree in medicine from 白求恩醫科大學 (Norman Bethune University of Medical Sciences). Ms. Bao has over ten years' experience in neurological therapy, teaching and research and development, and six years' experience in pharmaceutical trading. She joined the Group in June 2001.

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Ms. CHU, Hong (初虹女士), aged 39, is the Head of Research and Development of the Company. Ms. Chu is licensed pharmacist and senior engineer. She graduated from 瀋陽藥學院 (Shenyang Institute of Pharmacy) with a bachelor's degree in microbial pharmacy and has sixteen years' experience in production, quality control and research and development for pharmaceutical operations. Prior to joining the Group in August 2002, Ms. Chu was the vice factory manager of 蘇州第二製藥廠 (Suzhou Second Pharmaceutical Factory) and the vice director of the development department of 蘇州醫藥集團有限公司 (Suzhou Pharmaceutical Group Co. Ltd).

Mr. XIA, Zhen Hua (夏振華先生), aged 38, is the Factory Director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, responsible for overseeing the production of Suzhou Dawnrays Pharmaceuticals Co., Ltd. Mr. Xia, a licensed pharmacist and senior engineer, graduated from 中國藥科大學 (The University of Medicine of the PRC) with a bachelor's degree in pharmaceutical analysis. He has sixteen years' experience in pharmaceutical production management and quality control. Before joining the Group in May 2002, Mr. Xia was the chief engineer of 蘇州第四製藥廠 (Suzhou Fourth Pharmaceutical Factory).

Mr. ZHU, Qin Sheng (朱琴生先生), aged 51, is the General Manager of Shanghai Dawnrays Chemical Co., Ltd, responsible for overseeing the operations of Shanghai Dawnrays Chemical Co., Ltd. Mr. Zhu has twenty-six years' experience in production management, financial management and operations for pharmaceutical enterprises. He was the assistant factory director of 蘇州第三製藥廠 (Suzhou Third Pharmaceutical Factory) before joining the Group in April 1998.

Mr. LI, Jian Xiang (李建翔先生), aged 48, is the General Manager of Suzhou Dawnrays Chemical Co., Ltd, responsible for overseeing the operations of Suzhou Dawnrays Chemical Co., Ltd. Mr. Li has twenty-seven years' experience in production management, engine facilities maintenance and operations for pharmaceutical enterprises. He was the factory director of 蘇州第二製藥廠 (Suzhou Second Pharmaceutical Factory) before joining the Group in April 1998.

Mr. CHEN, Jian Dong (陳建東先生), aged 39, is the General Manager of Suzhou Dawnrays Pharmaceutical Technology Co., Ltd. Mr. Chen is a qualified pharmaceutical engineer and licensed pharmacist and has a bachelor's degree in chemical pharmacology from 中國藥科大學 (The Pharmaceuticals University of the PRC) where he spent three years as an assistant teacher. He was the head of the research centre and antibiotics workshop manager at 蘇州第四製藥廠 (Suzhou Fourth Pharmaceutical Factory) and the head of the registration section of the research and development department of 蘇州中化藥品工業有限公司 (Suzhou Chung-Hwa Chemical & Pharmaceutical Industrial Co. Ltd) prior to joining the Group in April 2002.

DISCLOSURE OF INTEREST

(a) Interests of the Directors and chief executive of the Company in the Company and its associated corporations

As at 31 December 2003, 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 the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), which were 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 any interests and short positions which they were taken or deemed to have under such provisions of the SFO; or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

(i) Interests in the Company

Name of Director	Capacity/Nature of interest	Number of ordinary shares of HK\$0.10 each (Note 1)	Approximate percentage of shareholding
Ms. Li Kei Ling	Interest of controlled corporations	552,000,000 (L) (Note 2)	69%
	Beneficial interest	700,000 (L) (Note 6)	0.0875%
Mr. Hung Yung Lai	Interest of controlled corporations	552,000,000 (L) (Note 3)	69%
	Beneficial interest	700,000 (L) (Note 7)	0.0875%
Mr. Zhang Jing Xing	Beneficial interest	1,500,000 (L) (Note 8)	0.1875%
Mr. Lam Kam Wah	Beneficial interest	848,000 (L) (Note 9)	0.106%

Report of the Directors

(ii) Interest in the shares of associated corporations of the Company

Name of associated corporation	Name of Director	Capacity/Nature of interest	Number of ordinary share(s) of US\$1.00 each (Note 1)	Approximate percentage of shareholding
Fortune United Group Limited	Ms. Li Kei Ling	Interest of a controlled corporation	2 (L) (Note 4)	50%
Fortune United Group Limited	Mr. Hung Yung Lai	Interest of a controlled corporation	2 (L) (Note 5)	50%

Notes:

- The letter "L" denotes a long position in shares.
- These shares are beneficially owned by Fortune United Group Limited. By virtue of her shareholding interest in Fortune United Group Limited through Keysmart Enterprises Limited as mentioned in Note 4 below, Ms. Li Kei Ling is deemed or taken to be interested in the 552,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
- These shares are beneficially owned by Fortune United Group Limited. By virtue of his shareholding interest in Fortune United Group Limited through Hunwick International Limited as mentioned in Note 5 below, Mr. Hung Yung Lai is deemed or taken to be interested in the ordinary 552,000,000 shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
- Two shares of US\$1.00 each of Fortune United (representing 50% of the issued share capital of Fortune United Group Limited) are beneficially owned by Keysmart Enterprises Limited, a company wholly owned by Ms. Li Kei Ling. By virtue of her beneficial interest in 100% of the share capital of Keysmart Enterprises Limited, Ms. Li Kei Ling is deemed or taken to be interested in the two ordinary shares of US\$1.00 each in the share capital of Fortune United Group Limited owned by Keysmart Enterprises Limited for the purpose of the SFO.
- Two shares of US\$1.00 each of Fortune United (representing 50% of the issued share capital of Fortune United Group Limited) are beneficially owned by Hunwick International Limited, a company wholly owned by Mr. Hung Yung Lai. By virtue of his beneficial interest in 100% of the share capital of Hunwick International Limited, Mr. Hung Yung Lai is deemed or taken to be interested in the two ordinary shares of US\$1.00 each in the share capital of Fortune United Group Limited owned by Hunwick International Limited for the purpose of the SFO.
- Pursuant to the share option scheme of the Company adopted on 21 June 2003, Ms. Li Kei Ling was granted an option to subscribe for a total of 700,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.
- Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Hung Yung Lai was granted an option to subscribe for a total of 700,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.
- Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Zhang Jing Xing was granted an option to subscribe for a total of 1,500,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.
- Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Lam Kam Wah was granted an option to subscribe for a total of 848,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.

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Subsequent to 31 December 2003, on 14 January 2004 Fortune United Group Limited entered into a sale and purchase agreement with Ray Sheen Company Limited, a company wholly-owned by Mr. Zhang Jing Xing, a Director, pursuant to which Ray Sheen Company acquired 152,000,000 shares of the Company, representing 19% of the total issued capital of the Company, from Fortune United Group Limited.

Subsequent to 31 December 2003, on 14 January 2004 Fortune United Group Limited entered into another sale and purchase agreement with Time Lead Investments Limited, a company wholly-owned by Mr. Li Tung Ming, a Director, pursuant to which Time Lead Investments Limited acquired 56,000,000 shares of the Company, representing 7% of the total issued capital of the Company, from Fortune United Group Limited.

As at the date of this annual report, 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 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 any interests and 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 under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules are as follows:

(i) *Interests in the Company*

Name of Director	Capacity/Nature of interest	Number of ordinary shares of HK\$0.10 each (Note 10)	Approximate percentage of shareholding
Ms. Li Kei Ling	Interest of controlled corporations	344,000,000 (L) (Note 11)	43%
	Beneficial interest	700,000 (L) (Note 6)	0.0875%
Mr. Hung Yung Lai	Interest of controlled corporations	344,000,000 (L) (Note 12)	43%
	Beneficial interest	700,000 (L) (Note 7)	0.0875%
Mr. Zhang Jing Xing	Interest of controlled corporation	152,000,000 (L) (Note 13)	19%
	Beneficial interest	1,500,000 (L) (Note 8)	0.1875%
Mr. Li Tung Ming	Interest of controlled corporation	56,000,000 (L) (Note 14)	7%
	Beneficial interest	1,048,000 (L) (Note 15)	0.131%
Mr. Lam Kam Wah	Beneficial interest	848,000 (L) (Note 9)	0.106%

Report of the Directors

(ii) Interest in the shares of associated corporations of the Company

Name of associated corporation	Name of Director	Capacity/Nature of interest	Number of ordinary share(s) of US\$1.00 each (Note 10)	Approximate percentage of shareholding
Fortune United Group Limited	Ms. Li Kei Ling	Interest of a controlled corporation	2 (L) (Note 4)	50%
Fortune United Group Limited	Mr. Hung Yung Lai	Interest of a controlled corporation	2 (L) (Note 5)	50%

Notes:

10. The letter "L" denotes a long position in shares.
11. These shares are beneficially owned by Fortune United Group Limited. By virtue of her shareholding interest in Fortune United Group Limited through Keysmart Enterprises Limited as mentioned in Note 4 above, Ms. Li Kei Ling is deemed or taken to be interested in the 344,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
12. These shares are beneficially owned by Fortune United Group Limited. By virtue of his shareholding interest in Fortune United Group Limited through Hunwick International Limited as mentioned in Note 5 above, Mr. Hung Yung Lai is deemed or taken to be interested in the ordinary 344,000,000 shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
13. These shares are beneficially owned by Ray Sheen Company Limited, a company wholly owned by Mr. Zhang Jing Xing. By virtue of his shareholding interests in 100% of the share capital of Ray Sheen Company Limited, Mr. Zhang Jing Xing is deemed or taken to be interested in the 152,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Ray Sheen Company Limited for the purpose of the SFO.
14. These shares are beneficially owned by Time Lead Investments Limited, a company wholly owned by Mr. Li Tung Ming. By virtue of his shareholding interests in 100% of the share capital of Time Lead Investments Limited, Mr. Li Tung Ming is deemed or taken to be interested in the 56,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Time Lead Investments Limited for the purpose of the SFO.
15. Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Li Tung Ming was granted an option to subscribe for a total of 1,048,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.

Mr. Xu Kehan is appointed as an Executive Director of the Company with effect from 17 March 2004. Mr. Xu is the beneficial owner of 120,000 ordinary shares of the Company. Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Xu was granted an option to subscribe for a total 548,000 shares in the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report. Thus Mr. Xu has beneficial interest (long position) in an aggregate of 668,000 shares and underlying shares of the Company, representing approximately 0.0835% of the Company's issued share capital.

Save as disclosed herein, as at the date of this Annual Report, none of the Directors has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be recorded in the register referred therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Unless otherwise stated in this Annual Report, the Directors have no family or business relationship with any other Directors, senior management or substantial or controlling shareholders of the Company referred to herein.

(b) Interests of the substantial shareholders in the Company

As at 31 December 2003, so far is known to the Directors, shareholders (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept under section 336 of the SFO or who were, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Capacity/Nature of interest	Number of ordinary shares of HK\$0.10 each (Note 1)	Approximate percentage of shareholding
Fortune United Group Limited	Beneficial owner	552,000,000 (L)	69%
Keysmart Enterprises Limited	Interest of a controlled corporation	552,000,000 (L) (Note 2)	69%
Hunwick International Limited	Interest of a controlled corporation	552,000,000 (L) (Note 3)	69%
Mdm Iu Pun	Interest of spouse	552,700,000 (L) (Note 4)	69.0875%

Notes:

1. The letter "L" denotes a long position in shares.
2. Keysmart Enterprises Limited, which is wholly owned by Ms. Li Kei Ling, is beneficially interested in 50% of the share capital of Fortune United Group Limited and is deemed or taken to be interested in the 552,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
3. Hunwick International Limited, which is wholly owned by Mr. Hung Yung Lai, is beneficially interested in 50% of the share capital of Fortune United Group Limited and is deemed or taken to be interested in the 552,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
4. Mdm Iu Pun is the wife of Mr. Hung Yung Lai and is deemed to be interested in these shares in which Mr. Hung Yung Lai is deemed or taken to be interested for the purpose of the SFO.

Report of the Directors

As at the date of this annual report, so far is known to the Directors, shareholders (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of the SFO or who were, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Capacity/Nature of interest	Number of ordinary shares of HK\$0.10 each (Note 5)	Approximate percentage of shareholding
Fortune United Group Limited	Beneficial owner	344,000,000 (L)	43%
Keysmart Enterprises Limited	Interest of a controlled corporation	344,000,000 (L) (Note 6)	43%
Hunwick International Limited	Interest of a controlled corporation	344,000,000 (L) (Note 7)	43%
Mdm Iu Pun	Interest of spouse	344,700,000 (L) (Note 8)	43.0875%
Ray Sheen Company Limited	Beneficial owner	152,000,000 (L)	19%
Time Lead Investments Limited	Beneficial owner	56,000,000 (L)	7%
Mdm Luo Yang	Interest of spouse	153,500,000 (L) (Note 9)	19.1875%

Notes:

- The letter "L" denotes a long position in shares.
- Keysmart Enterprises Limited, which is wholly owned by Ms. Li Kei Ling, is beneficially interested in 50% of the share capital of Fortune United Group Limited and is deemed or taken to be interested in the 344,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
- Hunwick International Limited, which is wholly owned by Mr. Hung Yung Lai, is beneficially interested in 50% of the share capital of Fortune United Group Limited and is deemed or taken to be interested in the 344,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
- Mdm Iu Pun is the wife of Mr. Hung Yung Lai and is deemed to be interested in these shares in which Mr. Hung Yung Lai is deemed or taken to be interested for the purpose of the SFO.
- Mdm Luo Yang is the wife of Mr. Zhang Jing Xing and is deemed to be interested in these shares in which Mr. Zhang Jing Xing is deemed or taken to be interested for the purpose of the SFO.

(c) Interests of other persons in the Company

As at 31 December 2003, so far as is known to the Directors, there were no person or company (not being a Director or a chief executive or a substantial shareholder of the Company) who had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Share Option Scheme”) on 21 June 2003. Options in respect of a total number of 40,000,000 shares has been granted by the Company to Eligible Persons on 11 November 2003. The principal terms of the Share Option Scheme are summarized below:

- (i) The purpose of the Share Option Scheme is to enable the Board to grant options to selected Eligible Persons as incentives or rewards for their contribution or potential contribution to the Group.
- (ii) The Board may, at its absolute discretion and on such terms as it may think fit, grant options to any Eligible Persons (including the executive, non-executive and independent non-executive Directors and employees of the Group (whether full time or part time)).
- (iii) The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the existing issued share capital of the Company as at the date of this annual report (“Mandate Limit”). Accordingly, the maximum number of shares which may be granted under the Share Option Scheme shall not exceed 80,000,000 shares. The Company may, however, seek approval by its shareholders in general meeting to renew the Mandate Limit in accordance with the Listing Rules.
- (iv) The maximum entitlement of each Eligible Person - the maximum number of shares issued and to be issued upon exercise of options granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue of the Company. Any further grant of options in excess of such limit must be separately approved by shareholders with such Eligible Person and his associates abstaining from voting.
- (v) Time of exercise of option - An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period commencing on such date on or after the date on which the option is granted as the Board may determine in granting the option and expiring at the close of business on such date as the Board may determine in granting the option but in any event shall not exceed ten years from the date of grant.
- (vi) A non-refundable remittance of HK\$10 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option.
- (vii) The subscription price of a share in respect of option granted shall be at least the higher of (a) the closing price of the Company’s shares on the Stock Exchange of Hong Kong Limited, as stated in the Stock Exchange’s daily quotations sheet on the relevant offer date in respect of such option; (b) the average of the closing prices of the Company’s shares on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option; and (c) the nominal value of the ordinary shares of the Company.
- (viii) The life of the Share Option Scheme is until 20 June 2013.

Report of the Directors

The Company has granted options on 11 November 2003 to 456 employees (including Directors) to subscribe for 40,000,000 shares of the Company at exercise price of HK\$0.83 per share. Details of the share options granted under the Share Options Scheme as at 31 December 2003 were as follows:

Type of grantees	Options in the Company					Date of grant	Exercise period	Exercise price per share HK\$	Note
	As at 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2003				
5 Executive Directors:									
LI Kei Ling	—	700,000	—	—	700,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
HUNG Yung Lai	—	700,000	—	—	700,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
ZHANG Jing Xing	—	1,500,000	—	—	1,500,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
LAM Kam Wah	—	848,000	—	—	848,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
LI Tung Ming <i>Note (ii)</i>	—	1,048,000	—	—	1,048,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
XU Kehan <i>Note (iii)</i>	—	548,000	—	—	548,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
450 other continuing contract employees	—	34,656,000	—	(84,000)	34,572,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
Total	—	40,000,000	—	(84,000)	39,916,000				

No share options were cancelled during the year.

Notes:

- (i) The closing market price per share on the trading date immediately before the date on which the options were granted was HK\$0.87.
- (ii) Mr. LI Tung Ming was appointed as executive Director on 14 January 2004.
- (iii) Mr. XU Kehan is appointed as executive Director with effect from 17 March 2004.
- (iv) No part of the option will be exercisable at any time prior to the first anniversary of the date of grant. 20% of the option (the “First Portion”) will be exercisable at any time on or after the first anniversary of the date of grant up to and including 10 November 2005.

A further 30% of the option plus any remaining balance of the shares under the First Portion that have not been exercised (together, the “Second Portion”) will be exercisable at any time on or after the second anniversary of the date of grant up to and including 10 November 2006.

The remaining 50% of the option plus the remaining balance of the shares under the Second Portion that have not been exercised will be exercisable at any time on or after the third anniversary of the date of grant up to and including 10 November 2007.

Valuation of options

The options granted are not recognized in the financial statements of the Company until they are exercised. Upon exercise of the options, HK\$0.1 per share will be credited to share capital and the balance of the exercise price will be credited to share premium account.

The Directors consider it inappropriate to state the value of the options granted during the year on the ground that a number of variables which are crucial for the valuation of the option value cannot be accurately determined. Accordingly, the Directors believe that any valuation of the share options based on various speculative assumptions would not be meaningful and may be misleading.

Arrangement to purchase shares or debentures

Under the terms of the Company's Share Option Scheme adopted on 21 June 2003, the Board may, at its absolute discretion and on such terms as it may think fit, grant options to any eligible persons (including the executive directors, non-executive directors and independent non-executive directors and employees of the Group (whether full time or part time)).

Apart from the aforesaid, at no time during the year was the Company, or 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, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any interest in, or had been granted, or exercised, any right to subscribe for the securities and options of the Company and its associated corporation within the meaning of the SFO, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS AND CONTROLLING SHAREHOLDER'S INTEREST 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 or a controlling shareholder or any of its subsidiaries, had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries were entered into or existed during the year.

CONNECTED TRANSACTIONS

Details of exempted connected transactions are disclosed in note 29 to the accounts.

MANAGEMENT CONTRACTS

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

Report of the Directors

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

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the period from 11 July 2003 (the "Listing Date") to 31 December 2003.

PRE-EMPTIVE RIGHTS

No provisions for pre-emptive rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders exist in the Cayman Islands, being the jurisdiction in which the Company was incorporated.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited since its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Company established an audit committee on 21 June 2003 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of The Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the board of directors. The audit committee comprises two members, namely Mr. Lee Cheuk Yin Dannis (independent non-executive director), who was appointed as the Chairman of the Audit Committee on 25 November 2003 in place of Professor Wang Gui Guo who resigned on the same date, and Mr. Pan Xue Tian (independent non-executive director).

During the year, the Audit Committee met one time. The Audit Committee has reviewed the audited accounts for 2003 before recommending it to the Board of Directors for approval.

AUDITORS

The accounts have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Kei Ling

Chairman

Hong Kong, 16 March 2004