

The Directors present their report together with the audited financial statements of the Company for the period from 16 April 2003 to 31 December 2003 and the Group for the year ended 31 December 2003.

### CORPORATE REORGANISATION

Broad Intelligence was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies law of the Cayman Islands (2002 Revision) on 16 April 2003.

Pursuant to a reorganization scheme to rationalize the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 6 November 2003.

Details of the reorganization are set out in Note 1 to the financial statement and in the prospectus of the Company dated 11 November 2003.

The shares of the Company were listed on the Stock Exchange with effect from 24 November 2003.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in Note 1 to the financial statements.

### RESULT

The Group's profit for the year ended 31 December 2003 are set out in the consolidated income statement on page 24 of this Annual Report.

### DIVIDENDS

In pursuit of the best interest for its shareholders, the Company embarked on certain plans in 2004 to expand the existing production lines and acquire new production lines, land and plants. These plans were funded by proceeds from the listing and internal resources of the Company. As such, the Board of Directors does not recommend the distribution of any final dividend for the year ended 31 December 2003.

### PROPERTY, PLANT AND EQUIPMENT

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



## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in Note 20 to the financial statements.

## SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme, details of which are set out in Note 21 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 22 to the financial statements and in the consolidated statement of changes in equity on page 26 of this Annual Report.

## MAJOR CUSTOMERS AND SUPPLIERS

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

	2003 %	2002 %
Percentage of purchases:		
From the largest supplier	25	69
From the five largest suppliers	76	93
Percentage of turnover:		
From the largest customer	7	8
From the five largest customers	28	36

## DIRECTORS

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

### *Executive Directors*

Mr. Zhong Houtai, <i>Chairman</i>	(Appointed on 16 April 2003)
Mr. Zhong Houyao	(Appointed on 25 April 2003)
Mr. Chong Hoi Fung	(Appointed on 25 April 2003)
Mr. Sun Daquan	(Appointed on 25 April 2003)
Mr. Chai Chung Wai	(Appointed on 15 September 2003)

### *Independent Non Executive Directors*

Mr. Pei Renjiu	(Appointed on 25 April 2003)
Mr. Li Kai Ming	(Appointed on 28 July 2003)

Pursuant to Article 95 of the Company's Articles of Association Messrs. Zhong Houyao, Chong Hoi Fung, Sun Daquan, Chai Chung Wai, Pei Renjiu and Li Kai Ming will retire from office as directors at the Annual General Meeting and being eligible offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of 3 years commencing from 24 November 2003, and will continue thereafter until terminated by not less than 3 months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after the first anniversary of the commencement date of the respective service contracts at the discretion of the Directors of not more than 10% of the annual salary immediately prior to such increase). In addition, for the financial year ending 31 December 2003 and each of the financial years thereafter during the initial term, each of the executive Directors is also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive Directors in respect of any financial year of the Company shall not exceed 5% of the audited net profit of the Company (or as the case may be, combined or consolidated audited net profit of the Company and its subsidiaries (if any)) (after taxation but before extraordinary and exceptional items and payment of such bonuses) in respect of that financial year of the Company. An executive Director shall not vote on any resolution of the Directors regarding the amount of the discretionary bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

<b>Name</b>	<b>Annual salary</b>	<b>2003 salary</b>
Mr. Zhong Houtai	HK\$600,000	HK\$2,446,460
Mr. Zhong Houyao	HK\$480,000	HK\$81,774
Mr. Chong Hoi Fung	HK\$360,000	HK\$30,000
Mr. Sun Daquan	HK\$300,000	HK\$34,340
Mr. Chai Chung Wai	HK\$650,000	HK\$191,000



Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Company within one year without the payment of compensation (other than statutory compensation)).

The independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

No director 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 other than statutory compensation.

## DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 18 to 22 of this Annual Report.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2003, the interests of the directors in the shares of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Director	No. of shares Held	Percentage of Interest
	(Corporate interest (Note))	
Zhong Houtai	211,720,000	52.93%

### Notes:

1. The shares are registered under the name of Elite Achieve Limited.
2. The entire issued share capital of Elite Achieve Limited is legally and beneficially owned by Mr. Zhong Houtai.
3. Under the SFO, Mr. Zhong Houtai is deemed to be interested in all the shares registered in the name of Elite Achieve Limited.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Directors' interests in share capital" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or child under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or child under 18 years of age, to acquire such rights in any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

No director during the year had a beneficial interest, either direct or indirect, in any significant contract to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following interests of every person in 5% or more of the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance were follows:

Save as the disclosed above, as at 31 December 2003, the Company had not been notified of any persons 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 Part XV of the SFO.

Shareholder	Number of shares	Percentage hold
Elite Achieve Limited	211,720,000	52.93% (Note 1)
Zhong Houtai	211,720,000	52.93% (Note 1)
Widespread Limited	80,280,000	20.07% (Note 2)
Chan Chau Wan	80,280,000	20.07% (Note 2)

Note 1: The entire issued share capital of Elite Achieve Limited is legally and beneficially owned by Mr. Zhong Houtai.

Note 2: The entire issued share capital of Widespread Limited is legally and beneficially owned by Ms. Chan Chau Wan.

## 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 in existing during the year.



### CONNECTED TRANSACTIONS

During the year, the Group had no transactions with related parties.

### RETIREMENT SCHEME

The Group provides retirement benefits to its staff. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The contribution paid for the year ended 31 December 2003 was approximately HK\$554,000 (2002: HK\$283,000). The Group has made adequate provision in the financial statements in respect of the benefit schemes. The Group also provides housing allowances and meal allowances to its staff.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK\$1,000 by each of the employee and the Group) on a monthly basis to the fund.

### PROPOSED AMENDMENTS TO THE BYE-LAWS OF THE COMPANY

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has published amendments to The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on 30 January 2004. Subject to specific transitional arrangements in respect of some of the new provisions, the revised Listing Rules became effective on 31 March 2004. The revised Listing Rules have imposed certain new requirements which have to be reflected in the articles of association/bye-laws of all issuers.

To align the bye-laws of the Company with the revised Listing Rules, the Board proposes that certain provisions in the bye-laws of the Company be amended to comply with the revised Listing Rules, details of which will be set out in a circular to be despatched to shareholders in due course.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 20 May 2004 to 25 May 2004, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for attending the annual general meeting to be held on 25 May 2004, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Standard Registrars Ltd., G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong not later than 4:00 p.m. on 19 May 2004.

### COMPLIANCE WITH CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting year covered by the Annual Report, except that independent non-executive directors are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the bye-laws of the Company.

### AUDIT COMMITTEE

The Company has established its audit committee on 3 November 2003 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group.

The audit committee has two members comprising the Company’s two independent non-executive directors, namely Mr. Pei Renjiu (裴仁九先生) and Mr. Li Kai Ming (李開明先生). The primary duties of the audit committee are to review the Company’s annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company’s qualified accountant, compliance officer and auditors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and the Group’s internal control system.

Two meetings were held during the current financial year.

### AUDITORS

Charles Chan, Ip & Fung CPA Ltd. retired and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Zhong Houtai**

*Chairman*

19 April 2004