

# Report of the Directors

The directors present their annual report and the audited financial statements of Mayer Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2004.

## GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 9 October 2003 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme (“Group Reorganisation”) to rationalise the structure of the Group in the preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies comprising the Group since 12 December 2003. This was accomplished by the Company acquiring the entire issued capital of Bamian Investments Pte Ltd. (“Bamian”), the then holding company of the other subsidiaries of the Group, in consideration for the allotment and issue of the Company’s share, credited as fully paid, to the former shareholders of Bamian. Further details of the Group Reorganisation are set out in the Company’s prospectus dated 10 June 2004.

The Company obtained a listing for its shares on the Stock Exchange on 21 June 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the manufacturing and trading of steel pipes, steel sheets and other products made of steel.

## RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 21.

The directors recommend the payment of final dividend of RMB 3 cents per share totaling RMB12,000,000 in respect of the year ended 31 December 2004 to shareholders on the register of members on 29 April 2005.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 48.

## PROPERTY, PLANT AND EQUIPMENT

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

# Report of the Directors *(Continued)*

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 25 and 26 to the financial statements.

## RESERVES

Details of movements of the reserves of Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves of the Company at 31 December 2004 amounted to RMB148,412,000 (2003: RMB141,211,000).

## PRE-EMPTIVE RIGHTS

There is no provision 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 of the Company.

## MAJOR CUSTOMERS AND SUPPLIERS

The largest and the five largest customers accounted for less than 30% of the Group's total turnover for the year. The largest and the five largest suppliers accounted for 59% and 80% of the Group's purchases for the year, respectively.

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

### Executive Directors

Mr. Lai Yueh-hsing

Mr. Lo Haw

Mr. Shen Heng-chiang

Mr. Wu Kuo-lung (appointed on 25 February 2004)

Mr. Cheng Dar-terng

Mr. Chiang Jen-chin

# Report of the Directors *(Continued)*

## Non-executive Directors

Mr. Hsiao Ming-chih

Mr. Huang Chun-fa (appointed on 25 February 2004)

## Independent non-executive Directors

Mr. Huang Jui-hsiang (appointed on 8 January 2004)

Mr. Lin Sheng-bin (appointed on 8 January 2004)

Mr. Alvin Chu (appointed on 24 May 2004)

In accordance with article 112 of the Company's Articles of Association, each of Mr. Cheng Dar-terng, Mr. Chiang Jen-chin and Mr. Hsiao Ming-chih will retire by rotation at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

Each of the executive directors has entered into a service agreement with the Company for an initial term of one year commencing from 21 June 2004 and shall continue thereafter from year to year until and unless terminated by either party by giving to the other party not less than three months' prior written notice.

Each of the non-executive directors and independent non-executive directors has entered into a service agreement with the Company for an initial term of one year commencing from their respective dates of appointment and shall continue thereafter from year to year until and unless terminated by either party by giving to the other party not less than three months' prior written notice.

Save as disclosed above, no directors 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.

The Company has received from each of its independent non-executive directors an annual confirmation of his independence in 2004 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and as at the date of this report, the Company still considers the independent non-executive directors to be independent.

## MANAGEMENT CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in note 33 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

# Report of the Directors *(Continued)*

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY

As at 31 December 2004, 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 meanings of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executives of the Company have taken or deemed to have taken under such provisions), or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or which were 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 were as follows:

### Long positions in the share capital of Mayer Steel Pipe Corporation ("Taiwan Mayer")

Name of director	Number of ordinary shares in Taiwan Mayer					Approximate % of issued share capital
	Personal	Family	Corporate	Other	Total	
Lo Haw	171,311	923	8,829,200	–	9,001,434	6.55%
Cheng Dar-terng	973,769	29,298	–	–	1,003,067	0.73%
Chiang Jen-chin	792	–	–	–	792	0.00%
Shen Heng-chiang	–	3,000	–	–	3,000	0.00%
Wu Kuo-lung	3,141,164	49,607	–	–	3,190,771	2.32%

### Long positions in the share capital of Guangzhou Mayer Corp., Ltd. ("Guangzhou Mayer")

Name of director	Number of ordinary shares in Guangzhou Mayer					Approximate % of issued share capital
	Personal	Family	Corporate	Other	Total	
Lo Haw	–	–	8,160,000	–	8,160,000	6.40%

Save as disclosed above, as at 31 December 2004, none of the directors nor the chief executives of the Company nor their respective associates, had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or deemed to have taken under such provisions) or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or which were 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, and none of the directors or chief executives, or their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights at any time during the year.

# Report of the Directors *(Continued)*

## SUBSTANTIAL SHAREHOLDERS

So far as the directors of the Company are aware, the person/entity (not being a director or a chief executive of the Company) who has interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part IV of the SFO, were as follows:

### Long positions in the share capital of the Company

Name of shareholder	Number of shares held	Percentage of issued share capital of the Company
Taiwan Mayer <i>(note)</i>	300,000,000	75%
Mayer Corporation Development International Limited ("BVI Mayer")	300,000,000	75%

*Note:* BVI Mayer is a wholly-owned subsidiary of Taiwan Mayer. Taiwan Mayer is deemed to be interested in the 300,000,000 shares held by BVI Mayer under the SFO.

Save as disclosed above, as at 31 December 2004, the directors of the Company are not aware of any other person/entity (not being a director or a chief executive of the Company) who has interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part IV of the SFO, or who is directly or indirectly interested in 10% or more of the shares of the Company or equity interest in any member of the Group representing 10% or more of the equity interest in such company.

## SHARE OPTION SCHEME

Details of the Company's share option scheme are disclosed in note 26 to the financial statements. No share options were granted by the Company since the adoption of the scheme.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

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 directors, supervisors or their respective spouse or minor children, 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 to acquire such rights in any other body corporate.

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

During the year, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares.

# Report of the Directors *(Continued)*

## CONNECTED TRANSACTIONS

On 28 October 2001, the Group entered into a lease agreement with Ms. Shih Hui-ping, the spouse of Mr. Lo Haw (being a director of the Company), pursuant to which the Group agreed to pay a monthly rental of RMB10,000 in respect of the Group's occupation of Shanghai office for a term of five years commencing on 28 October 2001. In the opinion of the directors of the Company, the rental is based on normal commercial terms and is conducted in the ordinary and usual course of business of the Group. This transaction constitutes a de minimus on-going connected transaction exempted from the reporting, announcement and independent shareholders' approval requirements in accordance with Rule 14A.33(3) of the Listing Rules.

## LOAN AGREEMENT WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 31 December 2004, the Group had borrowing of US\$1,639,956 with maturity commencing from 31 December 2004 to 31 March 2005 and undrawn uncommitted banking facilities of US\$1,360,044 under facilities amounting to US\$3,000,000, which were subject to Taiwan Mayer, being the Company's controlling shareholder, owning 75% in the share capital of the Company so long as any amount is outstanding under such facilities. Otherwise, immediate repayment of borrowings may be demanded and cancellation of undrawn facilities may result.

## AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") pursuant to a resolution of the board of director passed on 24 May 2004 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 the financial reporting process of the Group. The Audit Committee consists of the three independent non-executive directors of the Company, namely Mr. Lin Sheng-bin, Mr. Huang Jui-hsiang and Mr. Alvin Chiu, with Mr. Huang Jui-hsiang being the chairman of the Audit Committee. The financial statements of the Group for the year ended 31 December 2004 have been reviewed by the Audit Committee at a meeting held on 24 March 2005.

## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

Having made specific enquiry of all directors of the Company, during the accounting period covered by the annual report, the directors of the Company have strictly complied with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Company has adopted the Model Code as the code of conduct governing the securities transactions of the directors of the Company.

## CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the annual report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, which was in force prior to 1 January 2005.

# Report of the Directors *(Continued)*

## AUDITORS

During the year, Messers Deloitte Touche Tohmatsu resigned and CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Ltd.) were appointed as the Company's auditors to fill up the casual vacancy.

A resolution for the re-appointment of CCIF CPA Limited as the auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

By Order of the Board

**Lai Yueh-hsing**

*Chairman*

Hong Kong, 24 March 2005