

# Report of the Directors

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The Board of Directors has pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2000.

## GROUP REORGANISATION

The Company was incorporated in Bermuda on 28 June 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. In preparing for the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company and its subsidiaries comprising the Group (under common control before the reorganisation) underwent a reorganisation (the “Reorganisation”) as set out in the Prospectus (the “Prospectus”) of the Company dated 31 October 2000. As a result of the Reorganisation, the Company became the ultimate holding company of the Group on 25 September 2000. The Company’s shares have been listed on the Stock Exchange since 15 November 2000.

Further details of the Group Reorganisation, are set out in note 1 to the financial statements and in the Company’s Prospectus.

## PRINCIPAL ACTIVITIES

The Company is an investing holding company. Its subsidiaries are principally engaged in the production and distribution of differential chemical fibre products, and in the provision of engineering and installation services for chemical fibre projects and the design and installation of chemical fibre production machinery and equipment.

There were no significant changes in the nature of the Group’s activities during the year.

## SEGMENTAL INFORMATION

The Group’s turnover and contribution to operating profit in 1999 and 2000 were derived from Mainland China.

The analysis of turnover and contribution to profit before taxation by operating activity are set out in note 3 and note 5(b) to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 48.

As the Company was recently listed on the Stock Exchange, the Board of Directors does not recommend the payment of final dividend for the year ended 31 December 2000.

## FINANCIAL SUMMARY

The Company was incorporated in Bermuda on 28 June 2000 and became the ultimate holding company of the companies now comprising the Group as a result of the Reorganisation which became effective on 25 September 2000. Accordingly, the only balance sheets of the Group that have been prepared are those set out in the financial statements on page 22.

The consolidated income statements for the four years ended 31 December 2000 are presented below on the basis of merger accounting, under which they have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31 December 2000, rather than from the date on which the Reorganisation was completed.

Except for the above-mentioned companies, the results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal.

	2000	1999	1998	1997
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000
Turnover	<u>633,985</u>	<u>491,512</u>	<u>314,329</u>	<u>154,159</u>
Profit before taxation	202,458	144,451	47,046	52,688
Taxation	<u>(24,776)</u>	<u>(23,320)</u>	<u>—</u>	<u>—</u>
Profit after taxation but before minority interests	177,682	121,131	47,046	52,688
Minority interests	<u>4,739</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit attributable to shareholders	<u>182,421</u>	<u>121,131</u>	<u>47,046</u>	<u>52,688</u>
Earnings per share - Basic	<u><b>RMB0.13</b></u>	<u><b>RMB0.09</b></u>	<u><b>RMB0.03</b></u>	<u><b>RMB0.04</b></u>

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## FIXED ASSETS

Movements in fixed assets of the Company and the Group during the year are set out in note 11 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 12 to the financial statements.

## ASSOCIATE

Particulars of the Company's associate are set out in note 13 to the financial statements.

## SHARE CAPITAL

Details of the movements in the authorised and issued shares of the Company during the year, together with the reasons thereof are set out in note 23 to the financial statements.

## SHARE PREMIUM ACCOUNT AND RESERVES

Details of movements in the share premium account and reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2000, the Company's reserves available for distribution are calculated in accordance with the Companies Act 1981 of Bermuda amounted to RMB447,694,000.

In addition, the Company's share premium may be distributed in the form of fully paid bonus shares.

## BANK LOANS

Details of bank loans of the Company and the Group are set out in note 22 to the financial statements.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB115,000 (1999: RMB330,000).

## RETIREMENT SCHEME

Details of retirement scheme of the Company and the Group are set out in note 29 to the financial statements.

## DIRECTORS

The directors of the Company during the financial year were:

### Executive Directors

Chen Shun Li ( <i>Chairman &amp; Chief Executive Officer</i> )	(appointed on 22 July 2000)
Chen Guo Li	(appointed on 25 August 2000)
Huo Shi Zhi	(appointed on 25 August 2000)
Law Fei Shing ( <i>Deputy Chairman &amp; Chief Financial Officer</i> )	(appointed on 22 July 2000, resigned on 25 August 2000 and re-appointed on 31 August 2000)
Xiao Tian Guan	(appointed on 25 August 2000)

### Independent Non-Executive Directors

Chen Da Jun	(appointed on 25 August 2000)
Huang Yue	(appointed on 25 August 2000)
Jiang Xi Xia	(appointed on 25 August 2000)

In accordance with Bye-law 99 of the Company's Bye-laws, Mr Xiao Tian Guan and Mr Huang Yue retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out in pages 7 to 9.

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## DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 6 to the financial statements.

## FIVE HIGHEST PAID INDIVIDUALS

Details of five highest paid individuals of the Group are set out in note 6 to the financial statements.

## DIRECTORS' SERVICE CONTRACTS

Messrs Chen Shun Li, Chen Guo Li, Huo Shi Zhi, Law Fei Shing and Xiao Tian Guan each entered into a service contract with the Company for a term of three years commencing 1 September 2000, which continue thereafter until terminated by either party giving not less than three months' notice in writing. Other than these service contracts, none of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

## SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's board of directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on the Stock Exchange on the five trading days immediately preceding the date of offer of the options. As at 31 December 2000, no option has been granted under the share option scheme.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Mr Law Fei Shing, a director, is a director and shareholder of City Light Accountancy Consultants Limited, which provided secretarial services to the Group and received professional fees in respect of such services. The provision of such services was terminated on 25 August 2000.

Save as disclosed in the preceding paragraph, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members its management had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2000, the directors of the Company had the following beneficial interests in the shares of HK\$0.10 each in the capital of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

Director	Number of Shares				
	Corporate interest	Personal interest	Family interest	Other interests	Total interest (%)
Chen Shun Li	1,395,000,000 <sup>(1)</sup>	—	—	—	75%

Note:—

- (1) 948,600,000 Shares (representing 51%) held by Process Logistics Limited and 446,400,000 Shares (representing 24%) by Leading Logistics Limited. Mr Chen Shun Li is the legal and beneficial owner of the entire issued share capital of both Process Logistics Limited and Leading Logistics Limited.

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## CONNECTED TRANSACTIONS

The connected transactions disclosed in accordance with the Rules Governing the Listing of Securities of the Stock Exchange during 2000 are as follows:

- (i) At 31 December 2000, advances made by the Group's wholly-owned subsidiary, Heshun (China) Industrial Group Co., Ltd., to the Group's associated company, Changle City Shunshi Group Co., Ltd. ("Changle Shunshi"), in which the Group holds 20% equity interest, were outstanding in the amount of RMB34,389,000. The advances were used to finance the construction project in Heshun (Fujian) Spandex Co., Ltd. ("Heshun Spandex") in which the Group owns 52% of equity interest (12% of equity interest is held indirectly through Changle Shunshi). The advances are unsecured, non-interest bearing and are not repayable within one year from the balance sheet date.
- (ii) At 31 December 2000, advances made by the Group's wholly-owned subsidiary, Central Harvest Holdings Ltd., to the Group's non wholly-owned subsidiary, Heshun Spandex, were outstanding in the amount of RMB71,169,000. The advances were used to finance the construction project in Heshun Spandex. The advances are unsecured, non-interest bearing and are not repayable within one year from the balance sheet date.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, according to the Register of Interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance, the shareholder who was interested in 10% or more of the issued share capital of the Company was as follows:

Name	Number of Shares	Percentage of voting rights
Process Logistics Limited	948,600,000 <sup>(1)</sup>	51%
Leading Logistics Limited	446,400,000 <sup>(1)</sup>	24%

Notes:— 1. The entire issued share capital of Process Logistics Limited and Leading Logistics Limited are held by Mr Chen Shun Li.

Other than as disclosed above, no other person is recorded in the Register as having an interests in 10% or more of the issued share capital of the Company.

## **PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

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

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholder.

## **POST BALANCE SHEET EVENTS**

As at 31 December 2000, the Group had no significant post balance sheet events.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The largest customer of the Group by itself and taken together with the next four largest customers accounted for 18.5% and 75.8% respectively of the Group's total turnover for the year.

The largest supplier of the Group by itself and taken together with the next four largest supplier accounted for 38.0% and 84.4% respectively of the Group's total purchases for the year.

At no time during the year did any directors, their respective associates, or any shareholders of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers and suppliers.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation according to the provisions of the Company's Bye-laws.



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## AUDIT COMMITTEE

An audit committee of the Board of Directors was established on 25 September 2000. Written terms of reference which set out the authorities and duties of the audit committee were adopted by the Board on the same date. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has two members comprising the two independent non-executive directors. Mr Huang Yue will be the Chairman of the audit committee.

## AUDITORS

The accompanying financial statements were audited by Messrs Arthur Andersen & Co. A resolution for the re-appointment of Messrs Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Chan Shun Li**

*Chairman & Chief Executive Officer*

Fuzhou, the People's Republic of China,

9 April 2001