

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 12 to the financial statements.

RESULTS AND APPROPRIATION

Details of the results of the Group for the year are set out in the consolidated income statement on page 28.

The Directors recommend the payment of a final dividend of HK\$0.028 (equivalent to approximately RMB0.030) per share to the Shareholders whose names appear on the register of members on 3 June 2005, amounting to HK\$11.8 million (equivalent to approximately RMB12.5 million).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 31 and in note 21 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, the Company's reserves available for distribution to shareholders at 31 December 2004 was approximately RMB189.1 million (2003: RMB167.3 million).

SHARE CAPITAL

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

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired plant and machinery of approximately RMB70.9 million and land and buildings of approximately RMB15.6 million for the expansion and improvement of its production capacity. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

DIRECTORS

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

Executive directors:

Mr. Yang Zongwang
(Chairman and Chief Executive Officer)

Mr. Xue Xi

Mr. Xue De Fa

Mr. Ng Kin Sun

Mr. Liu Zhi Qiang

Independent non-executive directors:

Mr. Tong Hing Wah

Mr. Chong Hoi Fung

Mr. Ng Wai Man (appointed on 15 September 2004)

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 2 June 2003 and renewable automatically for successive terms of one year. With the exception of Mr. Yang Zongwang as the chairman of the Company, all directors are subject to retirement from office by the rotation at each annual general meeting as required by the Company's Articles of Association.

The term of office of each of the independent non-executive directors is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

In accordance with the provision of article 108(A) of the Company's articles of association, Mr. Liu Zhi Qiang and Mr. Chong Hoi Fung shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with the provision of article 112 of the Company's articles of association, Mr. Ng Wai Man shall retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

Other than as disclosed above, 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.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and short positions of the directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 interests or 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 pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in the shares of the Company

Name of director	Type of Interests	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Mr. Yang Zongwang ("Mr. Yang")	Corporate	220,900,000 (Note)	52.25%

Note:

These shares are registered in the name of and beneficially owned by Fu Teng Global Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Yang.

Other than as disclosed above, none of the directors or chief executive or any of their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2004.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of the directors and chief executive, the following shareholders had notified the Company that they were interested in 5% or more of the issued share capital of the Company.

Long positions in shares of the Company

Name	Type of interests	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Fu Teng Global Limited	Corporate	Beneficial owner	220,900,000 (Note a)	52.25%
Ms. Yang Yunxian	Corporate	Interest of spouse	220,900,000 (Note a)	52.25%
China Plaza Tradings Limited	Corporate	Beneficial owner	24,000,000 (Note b)	5.68%
Mr. Lam Tun Kam	Corporate	Interest of a controlled corporation	24,000,000 (Note b)	5.68%
Ms. Wong Wai Yan	Corporate	Interest of spouse	24,000,000 (Note b)	5.68%

Notes:

- Mr. Yang is the owner of the entire issued share capital of Fu Teng Global Limited. Mr. Yang and his spouse, Ms. Yang Yunxian, are taken to be interested in these 220,900,000 shares held by Fu Teng Global Limited by virtue of the SFO.
- Mr. Lam Tun Kam is the owner of the entire issued share capital of China Plaza Tradings Limited. Mr. Lam Tun Kam and his spouse, Ms. Wong Wai Yan, are taken to be interested in these 24,000,000 shares held by China Plaza Tradings Limited by virtue of the SFO.

Pursuant to the subscription agreement dated 1 December 2004 entered into between Value Partners Limited and the Company in respect of the issue of convertible notes in the principal sum of HK\$30.0 million (equivalent to approximately RMB31.8 million) (the "Notes") to Value Partners Limited by the Company, Value Partners Limited is entitled to convert the Notes into ordinary shares of the Company at any time between the day after the expiry of 6 months from the date of issue of the Notes and their maturity date at an initial conversion price of HK\$0.66 (equivalent to approximately RMB0.70) per share,

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subject to adjustments. As at 31 December 2004, the conversion rights are not exercisable. The maximum number of ordinary shares of HK\$0.10 each in the capital of the Company which may be issued upon full conversion of the Notes is 45,454,545 shares.

Save as disclosed above, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as at 31 December 2004, which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme and movements of options granted during the year are set out in note 28 to the financial statements.

The closing price of the Company's shares on 9 February 2004, being the trading date immediately before the date of offer of the options set out in note 28 to the financial statements, was HK\$0.80 (equivalent to approximately RMB0.848).

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year because of the absence of a readily available market value of the share options on the shares of the Company. Accordingly, the Directors were unable to arrive at any assessment of the value of these share options.

No options were granted to, or exercised by, the Directors during the year. There was no outstanding option granted to the directors at the beginning or at the end of the year.

The total number of shares available for issue under the Company's share option scheme as at the date of this report is 30,000,000, representing approximately 7% of the issued share capital of the Company as at that date.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in share option scheme above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the Directors 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 chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Details of the share transactions involving Fu Teng Global Limited, a substantial shareholder of the Company, during the year are set out in note 20(f) to the financial statements.

Other than as disclosed above, no contracts of significance to which the Company, its holding 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 the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was approximately 40% of the Group's total turnover and the Group's largest customer accounted for approximately 14% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 72% of the Group's total purchases and the Group's largest supplier accounted for approximately 40% of the Group's total purchases.

None of the Directors, their respective associates or any shareholder of the Company (which to the knowledge of the Directors or chief executives of the Company own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers or suppliers of the Group.

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

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group for the five financial years is set out on page 62 of this annual report.

PRE-EMPTIVE RIGHTS

There are 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.

EMOLUMENT POLICY

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

The emoluments of the directors of the Company are determined with reference to the Company's operating results, individual performance and the prevailing market rates.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of which are set out in note 28 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2004 with the then Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), which was in force prior to 1 January 2005 and remains applicable for the accounting periods commencing before 1 January 2005, except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to

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retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

The Company has received, from each of its independent non-executive directors, an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers all of the independent non-executive directors are independent.

MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Code"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Code for the year under review.

AUDIT COMMITTEE

The audit committee consists of three independent non-executive directors, namely, Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man. The audit committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and risk evaluation. The audited financial statements of the Company for the year ended 31 December 2004 have been reviewed by the audit committee.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at 12 April 2005 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained in this report).

AUDITORS

A resolution will be submitted at 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

Yang Zongwang

Chairman

Hong Kong, 12 April 2005