

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 33 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 38.

The directors recommend the payment of a final dividend of HK\$0.024 (equivalent to approximately RMB0.025) per share to those shareholders whose names appear on the register of members on 6 June 2006, amounting to HK\$10.1 million (equivalent to approximately RMB10.6 million).

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, amount to RMB184.7 million (2004: RMB189.1 million). 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.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired plant and machinery of approximately RMB4.0 million and buildings of approximately RMB12.3 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 during the year are set out in note 13 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 De Fa

Mr. Xue Xi

Mr. Ng Kin Sun

Mr. Liu Zhi Qiang

Independent non-executive Directors:

Mr. Tong Hing Wah

Mr. Chong Hoi Fung

Mr. Ng Wai Man

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 independent non-executive Director 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. Ng Kin Sun and Mr. Tong Hing Wah shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-elections.

Other than as disclosed above, no Director proposed for re-elections 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.

DIRECTORS' REPORT

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

At 31 December 2005, 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 of Hong Kong Limited (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 ("Fu Teng"), 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 2005.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors and chief executives of the Company are aware, as at 31 December 2005, other than the interests and short positions of the Directors or chief executives of the Company disclosed above, persons or companies who had 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 XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in shares of the Company

Name of shareholder	Type of interests	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued shares 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%
Penta Investment Advisers Ltd.	Corporate	Investment manager	29,644,000 (Note b)	7.01%
Mr. Moore Michael William	Corporate	Interest of a controlled corporation	29,644,000 (Note b)	7.01%
Mr. Zwaanstra John	Corporate	Interest of a controlled corporation	29,644,000 (Note b)	7.01%

Notes:

- Mr. Yang is the owner of the entire issued share capital of Fu Teng. Mr. Yang and his spouse, Ms. Yang Yunxian, are taken to be interested in these 220,900,000 shares held by Fu Teng by virtue of the SFO.
- Mr. Moore Michael William and Mr. Zwaanstra John are taken to be interested in these 29,644,000 shares through their 50% interest each in Penta Investment Advisers Ltd. by virtue of the SFO.

DIRECTORS' REPORT

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\$30,000,000 (equivalent to RMB31,800,000) (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 RMB0.700) per share, subject to adjustments. The conversion price has been adjusted to HK\$0.63 (equivalent to approximately RMB0.668) per share following the approval for a payment of the final dividend on 4 June 2005. No conversion rights was exercised since the date of issue and up to 31 December 2005. 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 47,619,047 (2004: 45,454,545) shares.

Save as disclosed above, the Directors or chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 31 December 2005.

SHARE OPTION SCHEME AND ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Particulars of the Company's share option scheme are set out in note 30 to the financial statements.

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 and 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 7.1% of the issued share capital of the Company as at that date.

Other than as disclosed 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 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 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

During the year, the Group obtained short term fund from Fu Teng, a Company in which Mr. Yang has entire interest, amounting to RMB7,102,000. It is unsecured, interest free and repayable on demand. At 31 December 2005, the amount due to Fu Teng was RMB3,120,000.

Pursuant to a tenancy agreement dated 1 November 2005 entered into between Mr. Yang as lessor and Fujian Fuwang Metal Products Co., Ltd. ("Fuwang"), a wholly-owned subsidiary of the Company, as lessee, Fuwang agreed to lease an office unit from Mr. Yang for a term of three years from 1 December 2005 to 30 November 2008 at a monthly rental of RMB3,750.

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 34.6% of the Group's total turnover and the Group's largest customer accounted for approximately 9.7% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 68.8% of the Group's total purchases and the Group's largest supplier accounted for approximately 27.9% of the Group's total purchases.

None of the Directors, their 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 purchased, sold or redeemed any of the Company's listed securities during the year.

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 are reviewed by the remuneration committee of the Company annually with reference to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of which are set out in note 30 to the financial statements.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independent pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

Please see the “Corporate Governance Report” set out on pages 23 to 29 of this annual report of the Company for details of its compliance with the Code on Corporate Governance Practices.

AUDIT COMMITTEE

The Group’s annual report for the year ended 31 December 2005 has been reviewed by the Audit Committee. Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 23 to 29 of this annual report.

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 2006 (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 to the 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 2006