

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

## ***Principal Activities***

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 12 and 13 to the financial statements respectively.

## ***Results***

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 18.

The Directors do not recommend the payment of a dividend for the year.

## ***Financial Summary***

A summary of the results, assets and liabilities of the Group is set out on pages 59 to 60 of this report.

## ***Share Capital and Warrants***

Details of the movements of the Company's share capital and warrants are set out in notes 25 and 27 to the financial statements respectively.

## ***Property, Plant and Equipment***

Details of movements of the property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

## ***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 decided, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company and its subsidiaries have adopted share option schemes as an incentive to directors and eligible employees, details of the schemes are set out in note 26 to the financial statements.

## ***Pre-emptive Rights***

There are no provisions for pre-emptive rights under the Company's Bye-laws or the applicable law of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

# REPORT OF THE DIRECTORS

## **Directors**

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

### **Chairman**

Dr. Yang Ding-Yuan

### **Vice-chairman**

Ms. Meng Tung-Mei, Grace

### **Executive Director**

Dr. Hu Ding-Hua (resigned on 30 March 2004)

### **Independent Non-executive Directors**

Professor Edward S. Yang

Mr. Chan Ting-Fung, Tim

Mr. Lo I-Wang (appointed on 28 September 2004)

In accordance with Bye-law 87(1) of the Company's Bye-laws, at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that the Chairman of the board and/or the managing director of the Company shall not, whilst holding his office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year. However, in the spirit of good corporate governance practices, Dr. Yang Ding-Yuan who is the Chairman of the Company will voluntarily retire from his office at the forthcoming annual general meeting notwithstanding that he is not required by the Bye-laws to do so. Accordingly, Dr. Yang Ding-Yuan together with Mr. Chan Ting-Fung, Tim whom is subject to retirement by rotation under Bye-law 87(1), will retire at the forthcoming annual general meeting but both of them will be offering themselves for re-election at the same meeting.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Lo I-Wang, being appointed as independent non-executive director on 28 September 2004, hold such office until the forthcoming annual general meeting, being eligible, offer himself for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and the Company still considers such directors to be independent.

## **Directors' Interest and Short Positions in Shares, Underlying Shares and Convertible Notes**

At 31 December 2004, the interest and short positions of the directors and their associates in the shares, underlying and convertible notes of the Company and its associates corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### **Long Positions**

#### *(a) Ordinary shares of US\$0.001 each of the Company*

<b>Name of director</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Yang Ding-Yuan	Held by controlled corporation ( <i>Note</i> )	5,094,288,616	55.60%

*Note:* Dr. Yang Ding-Yuan and his family members own 100% equity interests in S.T.J. Technology Limited ("STJ") which owns 5,094,288,616 shares of the Company as at 31 December 2004.

#### *(b) Share options*

<b>Name of director</b>	<b>Capacity</b>	<b>Number of underlying shares</b>
Yang Ding-Yuan	Beneficial owner	50,000,000

Other than as disclosed above, none of the directors nor their associates has any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2004.

## **Share Options**

### **(a) Share options to subscribe Company's shares**

Pursuant to the Company's share option schemes adopted on 19 November 2001 and 11 December 1996, the Directors of the Company may, at their discretion, grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group. Details of the Company's share option schemes are set out in note 26 to the financial statements.

# REPORT OF THE DIRECTORS

## Share Options *(continued)*

### (a) Share options to subscribe Company's shares *(continued)*

During the year, the movements in the number of options outstanding which have been granted to the Directors, executives and employees of the Company under the Company's share option schemes were as follows:

Directors	Date of grant	Exercise period	Exercise price HK\$	At 1 January 2004	Number of share options Granted during the year	Lapsed during the year	At 31 December 2004
Yang Ding-Yuan	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	–	50,000,000
Hu Ding-Hua	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	50,000,000	–
Meng Tung-Mei Grace	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	–	50,000,000
Yang S. Edward	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	–	50,000,000
Chan Ting-Fung, Tim	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	–	50,000,000
<b>Sub-total</b>				<b>250,000,000</b>	<b>–</b>	<b>50,000,000</b>	<b>200,000,000</b>
<b>Executives and employees</b>							
	30 April 2002	1 January 2003 – 29 April 2012	0.050	31,200,000	–	–	31,200,000
	30 April 2002	1 January 2004 – 29 April 2012	0.050	23,400,000	–	–	23,400,000
	30 April 2002	1 January 2005 – 29 April 2012	0.050	23,400,000	–	–	23,400,000
	24 January 2003	27 June 2003 – 23 January 2013	0.021	60,000,000	–	–	60,000,000
	28 January 2003	1 February 2004 – 27 January 2013	0.020	20,000,000	–	–	20,000,000
	28 January 2003	1 February 2005 – 27 January 2013	0.020	16,000,000	–	–	16,000,000
<b>Sub-total</b>				<b>174,000,000</b>	<b>–</b>	<b>–</b>	<b>174,000,000</b>
<b>Grand total</b>				<b>424,000,000</b>	<b>–</b>	<b>50,000,000</b>	<b>374,000,000</b>

**Share Options** *(continued)***(a) Share options to subscribe Company's shares** *(continued)*

The closing price of the Company's shares immediately before 30 April 2002, 24 January 2003 and 28 January 2003, the dates of grant of the share options, were HK\$0.05, HK\$0.021 and HK\$0.020 respectively.

During the year, no options were exercised by the Directors of the Company. The cost of share options granted is not recognised in the financial statements until they are exercised. The fair values of the options granted during the year measured as at the dates of grant on 30 April 2002, 24 January 2003 and 28 January 2003 were HK\$0.0495, HK\$0.0197 and HK\$0.0206 per option, respectively. The following significant assumptions were used to derive the fair values using the Black-Scholes option-pricing model:

<b>Date of grant</b>	<b>30 April 2002</b>	<b>24 January 2003</b>	<b>28 January 2003</b>
Expected life (in years)	10	10	10
Expected volatility based on			
historical volatility of share prices	140%	140%	140%
Expected annual dividend yield	Nil	Nil	Nil
Hong Kong Exchange Fund			
Notes rate	5.89%	3.93%	4.45%

The Black-Scholes option-pricing model requires input of highly subjective assumptions, including the volatility of share price. Because changes in the subjective input assumptions can materially affect the fair value estimate, the existing model does not necessarily provide a reliable measure of the fair value of the share options.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

**(b) Share options to subscribe for shares in Wood Art International Corporation ("Wood Art")**

Pursuant to the Company's shareholders' approval in the special general meeting held on 18 June 2004, the share option scheme of Wood Art, a subsidiary of the Company, became effective. Details of the share option scheme of Wood Art are set out in the Company's circular to the shareholders dated 28 May 2004.

Details of the movement during the year in outstanding share options of Wood Art is set out in Note 26 to the financial statements.

# REPORT OF THE DIRECTORS

## **Arrangements to Purchase Shares or Debentures**

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow 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.

## **Directors' Service Contracts**

There are no service contracts which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

## **Directors' Interests in Contracts of Significance**

No contracts of significance to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

## **Substantial Shareholders' Interests**

As at 31 December 2004, the register of the substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following shareholder's interests, being 5% or more of the issued share capital:

Name of shareholder	Notes	Number of shares held in the Company			Percentage of the issued share capital of the Company
		Direct interests	Deemed interest	Total interests	
Global Innovation Investment Limited ("GILL")	(i)	4,564,370,084	–	4,564,370,084	49.82%
STJ	(i)	529,918,532	4,564,370,084	5,094,288,616	55.60%
Dr. Yang Ding-Yuan	(ii)	–	5,094,288,616	5,094,288,616	55.60%

### *Notes:*

- (i) GILL, a company incorporated in Cayman Islands with limited liability, is a 70% owned subsidiary of STJ, a company incorporated in British Virgin Islands. STJ is deemed by the SFO to have interests in the Company's shares which are directly held by GILL.
- (ii) STJ is wholly owned by Dr. Yang Ding-Yuan and his family members. Dr. Yang Ding-Yuan is therefore, by virtue of the SFO, deemed to be interested in the Company's shares in which STJ is interested.

Save as disclosed above, as at 31 December 2004, the Company has not been notified by any persons (other than Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## ***Major Customers and Suppliers***

During the year, the percentages of purchases attributable to the Group's five largest suppliers combined and the sales made to the Group's five largest customers combined were less than 30% of the Group's total value of purchases and sales, respectively.

## ***Convertible Securities, Options, Warrants or Similar Rights***

Other than the share options and warrants as set out in notes 26 and 27 to the financial statements respectively, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2004.

## ***Purchase, Sale or Redemption of Listed Securities***

During the year, neither the Company, nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

## ***Sufficiency of Public Float***

The Company has maintained a sufficient public float throughout the year ended 31 December 2004.

## ***Code of Best Practice***

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the independent non-executive directors are not appointed for a specific term but subject to retirement by rotation at Annual General Meeting of the Company in accordance with the provisions of the Company's Bye-laws.

## ***Model Code for Securities Transactions by Directors of the Company***

During the year, the Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules. After having made specific enquiry of all Directors of the Company, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

## ***Audit Committee***

The Company has established an audit committee in the year 1998 and has formulated its written terms of reference in accordance with the requirements of the Stock Exchange. The audit committee which, includes three independent non-executive directors, is to review with the management the accounting policies and internal controls adopted by the Company and to discuss auditing and financial reporting matters.

# REPORT OF THE DIRECTORS

## **Auditors**

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**DR. YANG DING-YUAN**  
*CHAIRMAN*

Hong Kong, 22 April 2005