

Report of the Directors

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

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries are set out on pages 49 to 50 in this annual report.

Segment Information

An analysis of the Group's turnover and contribution to results from operating activities by principal activity and by geographical area of operations for the year ended 31 December 2004 is set out in note 4 to the financial statements.

Results and Dividends

The Group's loss for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 13 to 48.

The directors do not recommend the payment of any dividend in respect of the year.

Fixed Assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

Convertible Bonds

Details of the convertible bonds of the Group are set out in note 25 to the financial statements.

Right Issue

In February 2004, the Company effected a rights issue of 5,423,662,308 shares at an issued price of HK\$0.01 per rights share on the basis of four rights share for every one existing share held. Details of the rights issue are set out in note 26 to the financial statements.

Share Capital and Share Options

Details of movement in the Company's share capital and share options during the year are set out in note 26 to the financial statements.

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Pre-Emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

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

(Deficit)/Reserves

Details of movements in the (deficit)/reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

Distributable Reserves

At 31 December 2004, the Company had no retained profits or reserves available for cash distribution and/or distribution in specie.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 100% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 80% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 100% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 100% of the Group's total purchases.

None of the directors of the Company, or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

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Directors

The directors of the Company during the year were:

Executive directors

Mr. Yu Pan	(appointed on 8 December 2004)
Mr. Mai Zhi Hui	(appointed on 8 December 2004)
Mr. Mak Chi Yeung	(resigned on 29 December 2004)
Mr. Cheng Wai Keung	(resigned on 29 December 2004)
Mr. Kong Lung Cheung	(appointed on 26 July 2004 and resigned on 29 December 2004)

Independent non-executive directors

Mr. Choy Shu Kwan	(appointed on 29 December 2004)
Mr. Cheng Wing Keung, Raymond	(appointed on 29 December 2004)
Ms. Chung Lai Fong, la Fontaine	(appointed on 29 December 2004)
Mr. Lo Chi Man, Joseph	(resigned on 29 December 2004)
Mr. Wong Kwong Lung, Terence	(resigned on 29 December 2004)
Mr. Yip Tai Him	(appointed on 30 September 2004 and resigned on 29 December 2004)

In accordance with the bye-law 86(2) of the Company, Mr. Mai Zhi Hui will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

No director 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.

Directors' Interests in Contracts

Save as disclosed in note 34 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, any of its holding companies or subsidiaries was a party during the year.

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Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2004, the interests of the directors and chief executive in the share capital of the Company or its associated corporation (within the meaning of Part XV of Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name of director	Nature of interests	Number of Ordinary Shares held	Approximate percentage of shareholding (%)
Yu Pan (<i>see note 2</i>)	Interest of Controlled Corporation	3,160,922,790 (L)	46.16

Notes:

- (1) The letter "L" denotes a long position in the Shares.
- (2) 3,160,922,790 shares of the Company are held by Grand Cosmos Holdings Limited which is wholly-owned by Mr. Yu Pan.

Save as disclosed above, at 31 December 2004, none of the Directors of the Company had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party or parties to any arrangement 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' Rights to Acquire Shares or Debentures

Apart from as disclosed under the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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Substantial Shareholders

As at 31 December 2004 other than the shares held by a director as abovementioned in the section headed "Directors' interests and short positions in shares, underlying shares and debentures", no other person had registered an interest of 5% or more in the issued share capital of the Company that was required to be recorded in the register of interests in shares and short positions required to be kept under Section 336 of the SFO Ordinance.

Connected and Related Party Transactions

Details of related party transactions for the year are set out in note 34 to the financial statements. Save as those disclosed in the financial statements, there were no other material transactions to be disclosed as connected or related party transactions in accordance with the requirement of Listing Rules and accounting principals generally accepted in Hong Kong.

Share Option Scheme

Particulars of the Company's share option scheme are set out in note 26 to the financial statements. All the share options were cancelled during the year and no share options remained as at 31 December 2004.

The movements in the number of share options to subscribe for shares in the Company during the year were as follows:

Grantee	At 1 January 2004	Granted during the year	Number of share options		At 31 December 2004	Date of grant (*)	Share price of the Company at grant date (**)	Adjusted share price of the Company at grant date (***)	Exercise price	Exercise period
			Exercised during the year	Lapsed or Cancelled during the year						
Director:										
Mak Chi Yeung	576,000	—	—	(576,000)	—	23-7-2001	0.020	6.25	4.050	3-7-2001 to 25-6-2010
Mak Chi Yeung	—	5,000,000	—	(5,000,000)	—	4-6-2004	0.011	—	0.011	4-6-2004 to 4-6-2007
Kong Lung Cheun	—	67,795,700	—	(67,795,700)	—	4-6-2004	0.011	—	0.011	4-6-2004 to 4-6-2007
Cheng Wai Keung	—	6,779,500	—	(6,779,500)	—	4-6-2004	0.011	—	0.011	4-6-2004 to 4-6-2007
Other employees:										
In aggregate	12,800	—	—	(12,800)	—	23-7-2001	0.020	6.22	4.020	3-7-2001 to 25-6-2010
In aggregate	—	542,369,900	(67,795,700)	(474,574,200)	—	4-6-2004	0.011	—	0.011	4-6-2004 to 4-6-2007

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited on the trading day immediately prior to the date of the grant of the share options.

*** The adjusted price of the Company's shares as at the date of the grant of the share options is restated by taking into account the effect of share consolidation in year 2002.

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Competition and Conflict of Interest

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that compete or may compete with the businesses of the Group or has any other conflict of interests with the Group.

Post Balance Sheet Events

Details of significant post balance sheet events of the Group are set out in note 33 to the financial statements.

Code of Best Practice

None of the Directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the year, save that the independent non-executive directors were not appointed for a specific term are subject to retirement by rotation in accordance with the bye-laws of the Company.

Audit Committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

Auditors

A resolution for the approval of the re-appointment of Albert Lam & Co. as auditors of the Company will be proposed at the forthcoming annual general meeting.

Sufficient Public Float

To the knowledge of the Directors based on publicly available information, the Company has sufficient public float as at the date of this Report.

On behalf of the Board

Yu Pan

Chairman

Hong Kong, 25 April 2005