

# Report of the Directors

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The Directors present their report and the audited accounts of the Company and the Group for the year ended 31 December 2003.

## **DELAY IN PUBLICATION OF ANNUAL RESULTS AND DISPATCH OF ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2003**

Due to various litigations against the Group and prolonged suspension of shares trading in the Stock Exchange, most of the responsible officers had left the Group. The Company has not been able to announce its audited results for the financial year ended 31 December 2003 and dispatch the Annual Reports within the due date as required by the Rules Governing the Listing of Securities (the “Listing Rules”).

The delay in publication of the Annual Results and the dispatch of the Annual Report constitute breaches of the Rules 13.46(2) and 13.49(1) of the Listing Rules by the Company.

## **PRINCIPAL ACTIVITIES**

The Group at present is mainly engaged in providing customers with our product design, specification and solution in the manufacturing process while the production is subcontracted to subcontractors. The Company’s principal activity is investment holding.

The Group has been experiencing financial difficulties subsequent to 31 March 2002; the Group defaulted on the scheduled repayment of certain bank loans and received notices of various lawsuits against the Group. Due to shortage of fund to maintain the operation, the Group’s business activities have been significantly reduced.

## **WINDING-UP PETITION AND RESTRUCTURING OF THE GROUP**

The Bank of East Asia Limited (“BEA”), a subsidiary’s creditor, petitioned for the winding-up of the Company on 25 March 2003 and Provisional Liquidators were appointed on 21 June 2003. Details of the Group’s financial situation refer to note 2 to the accounts. An investor has expressed his interest to invest in the Company and has submitted a restructuring proposal to the Provisional Liquidators for the restructuring of the Company, details of which are set out in the note 3 (i) to the accounts and the announcement of the Company dated 10 June 2004.

# Report of the Directors

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## NON-COMPLIANCE OF APPENDIX 16 “DISCLOSURE OF FINANCIAL INFORMATION” OF THE LISTING RULES

Due to the failure to obtain access to the books and records of certain subsidiaries and the resignation of the major management personnel during the shares suspension period, the Directors do not have sufficient data available to compile the Annual Report so as to comply with the Appendix 16 “Disclosure of financial information” of the Listing Rules. The following information has been omitted from the Annual Report:

1. Cash flow statement;
2. Segment information for the Group’s turnover and contribution to results by principal activities and geographical areas of operations;
3. The information on the Group’s major suppliers and customers;
4. Connected transactions and continuing connected transactions with the connected persons as defined in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules;
5. A separate Corporate Governance Report contained the information required under Appendix 23 of the Listing Rules;
6. Credit policy of the debtors and ageing analysis of accounts receivable and accounts payable;
7. Details of the number and remuneration of employees, remuneration policies, bonus and share option schemes;
8. Details of charges on group assets; and
9. Details of contingent liabilities and commitments.

## RESULTS AND DIVIDENDS

The Group’s loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 16 to 40.

The Board of Directors of the Company has not recommended the payment of any dividend for the year ended 31 December 2003.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited accounts, is set out on page 42. This summary does not form part of the audited accounts.

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the accounts.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options during the year, together with the reasons thereof, are set out in note 19 to the accounts.

## PRE-EMPTIVE RIGHTS

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 20 to the accounts.

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

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

## DIRECTORS

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

### Executive Directors

Mr. Wu Shaozhang  
Mr. Wong Kwok Wing  
Mr. Tse On Kin  
Mr. Chen Weixiong  
Mr. Yuen Chung Yan, John

### Independent Non-Executive Directors

Mr. Lee Shue Shing  
Mr. Wu Xiaoke

In accordance with article 99(A) of the Company's bye-laws, Messrs. Chen Weixiong and Yuen Chung Yan, John will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

The Independent Non-executive Directors are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Company's bye-laws.

The Company has received from each of its Independent Non-Executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-Executive Directors to be independent.

## DIRECTORS' BIOGRAPHIES

Biographical details of the Directors of the Company are set out on page 4 of the Annual Report.

## EMOLUMENTS OF DIRECTORS

Details of the emoluments of the Directors and of the five highest paid individuals in the Group are set out in notes 8 to the accounts.

# Report of the Directors

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## DIRECTORS' SERVICE CONTRACT

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.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURE ORDINANCE ("SFO")

At 31 December 2003, shareholders who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and the Stock Exchange of Hong Kong ("Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

### Long position of substantial shareholders in the shares of the Company

Name	Number of shares	Percentage
Citigroup Inc.	1,811,940,295	22.4%
Vandor Profits Limited ( <i>Note</i> )	618,720,250	7.7%

*Note:* Vandor Profits Limited ("Vandor") is beneficially owned by Mr. Wu Shaozhang.

Save as disclosed above, the Company has not been notified by any person (other than the Directors of the Company) who had interests or short positions in the Shares or underlying Shares which would have to be disclosed to the Company and Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO which were notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and Stock Exchange pursuant to the Listing Rules were as follows:

### Long position in the shares of the Company

Director	Type of interest	Capacity	Number of shares held	% of the issued share capital of the Company
Mr. Wu Shaozhang ( <i>Note</i> )	Corporate	Beneficial owner	618,720,250	7.7%

*Note:* These shares are held by Vandor (see the section "Interests and short position of shareholders discloseable under SFO).

Save as disclosed above, no Directors or Chief Executive have any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and Stock Exchange pursuant to the Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Directors 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 subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## DIRECTORS' INTEREST IN CONTRACTS

No Director had a material beneficial interest in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the Directors considered that they have no interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

# Report of the Directors

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## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (the “Code”), as set out in Appendix 14 of the Listing Rules, throughout the year, except that the Non-Executive Directors of the Company are not appointed for specific terms as required by paragraph A.4.1 of the Code, but are subject to retirement by rotation in accordance with Company’s bye-laws.

## POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 21 to the accounts.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Trading in the Shares of the Company has been suspended since 24 March 2003 and the Directors are of the opinion that since the date of shares trading suspension, the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules is not applicable.

## SUFFICIENCY OF PUBLIC FLOAT

Up to the date of this annual report, the trading in the shares of the Company remains in suspension, the sufficiency of public float as required by the Listing Rules is not applicable.

## AUDIT COMMITTEE

The Company has an audit committee comprising the two Independent Non-Executive Directors of the Company which was established for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls. Due to the severe financial difficulties of the Group and the prolonged suspension in trading of the shares of the Company on the Stock Exchange, up to the date of this report the Company is unable to appoint a suitable person to be its third Independent Non-Executive Director and additional Audit Committee member. Therefore, the number of its Independent Non-Executive Directors and Audit Committee members fell below the minimum number required under Rule 3.10 (1) (the “INED Requirement”) and Rule 3.21 (the “Audit Committee Requirement”) of the Listing Rules.

## AUDITORS

S.W. Wu & Co. CPA Limited was appointed as the Auditors of the Company on 20 December 2002 to fill the vacancy left by the resignation of Ernst & Young.

Due to severe financial difficulties of the Company, the Company was not able to settle the outstanding balances of the audit fee owed to S.W. Wu & Co. CPA Limited in respect of company audit for the period ended 31 December 2002 and the Auditors stopped the audit works on/about 25 June 2003. Ting Ho Kwan & Chan were appointed as the Auditors of the Company with effect from 17 August 2004 to fill the casual vacancy left by the resignation of S.W. Wu & Co. CPA Limited.

Ting Ho Kwan & Chan retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD OF DIRECTORS

**Wu Shaozhang**

*Chairman*

Hong Kong

5 November 2004