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Report of the Directors

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 36 and 15 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 22.

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 page 62 of this report.

SHARE CAPITAL AND WARRANTS

Details of the movements of the Company's share capital and warrants are set out in notes 27 and 29 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2005.

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 28 to the consolidated 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 (cont'd)

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

Independent Non-executive Directors

Professor Edward S. Yang

Mr. Lo I Wang

Ms. Chang Jing-Yue (appointed on 21 February 2006)

Mr. Chan Ting-Fung, Tim (resigned on 21 February 2006)

In accordance with Bye-law 87(1) of the Company's Bye-laws, Ms. Meng Tung Mei, Grace, whom is subject to retirement by rotation will retire at the forthcoming annual general meeting, being eligible, offer herself for re-election.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Ms. Chang Jing-Yue, being appointed as an independent non-executive director on 21 February 2006, hold such office until the forthcoming annual general meeting, being eligible, offer herself 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 the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considers such directors to be independent.

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES

At 31 December 2005, the interest of the directors and their associates in the shares, underlying shares and convertible notes of the Company and its associated 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

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Yang Ding-Yuan	Held by controlled corporation (Note)	4,972,507,366	54.06%

Note: Dr. Yang Ding-Yuan and his family members own 100% equity interests in S.T.J. Technology Limited ("STJ") which owns 4,972,507,366 shares of the Company as at 31 December 2005.

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Report of the Directors (cont'd)

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES (cont'd)

Long Positions (cont'd)

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Yang Ding-Yuan	Beneficial owner	50,000,000	50,000,000

Other than as disclosed above, none of the directors nor their associates has any interest in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2005.

SHARE OPTIONS

(a) Share options to subscribe Company's shares

Pursuant to the Company's share option scheme adopted on 19 November 2001, 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 scheme are set out in note 28 to the financial statements.

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 scheme were as follows:

	Date of grant	Exercise period	Exercise price HK\$	Number of share options		
				At 1 January 2005	Exercised during the year	At 31 December 2005
Directors						
Yang Ding-Yuan	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
Sub-total				200,000,000	–	200,000,000

Report of the Directors (cont'd)

SHARE OPTIONS (cont'd)

(a) Share options to subscribe Company's shares (cont'd)

	Date of grant	Exercise period	Exercise price HK\$	Number of share options		
				At 1 January 2005	Exercised during the year	At 31 December 2005
Executives and employees						
	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)	–
Sub-total				174,000,000	(36,000,000)	138,000,000
Grand total				374,000,000	(36,000,000)	338,000,000

(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 movement during the year in outstanding share options of Wood Art is set out in note 28 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding companies, 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.

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Report of the Directors (cont'd)

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 companies 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 2005, 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)	4,172,670,436	–	4,172,670,436	45.37%
STJ	(i)	799,836,930	4,172,670,436	4,972,507,366	54.06%
Dr. Yang Ding-Yuan	(ii)	–	4,972,507,366	4,972,507,366	54.06%

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 2005, the Company has not been notified by any persons (other than Directors and chief executive of the Company) who has interests 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.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owns more than 5% of the Company's issued share capital has a beneficial interest in the share capital of any of the above major customers and suppliers of the Group.

Report of the Directors (cont'd)

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options and warrants as set out in notes 28 and 29 to the consolidated financial statements respectively, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2005.

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 2005.

CORPORATE GOVERNANCE

During the year, the Company has complied with all the Code provisions of the Code on Corporate Governing Practices (the "Code") as set out in Appendix 14 of Listing Rules except the derivations from Code provisions A.4.1 and A.4.2. in the following manners:

- A.4.1 all of the Independent Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation at annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws;
- A.4.2 all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the next annual general meeting instead of first general meeting after their appointment as stimulated in the Code provision.

In order to comply with Code provision A.4.2, a special resolution will be proposed for the shareholders' approval to amend the relevant Bye-laws at the forthcoming annual general meeting.

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 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 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.

REMUNERATION COMMITTEE

The Company had established a remuneration committee with written terms of reference pursuant to the provisions set out in the Code. The committee comprises three independent non-executive directors and the chairman, Dr Yang Ding-Yuan of the Company. The remuneration committee is principally responsible for formulation and making recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior management.

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Report of the Directors (cont'd)

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, 21 April 2006