

Report of the Directors

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

DELAY IN DISPATCH OF ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

Due to various litigation 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 dispatch the Annual Reports for the financial year ended 31 December 2005 within the due date as required by the Rules Governing the Listing of Securities (the "Listing Rules").

The delay in the dispatch of the Annual Report constitute breaches of the Rules 13.46(2) 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.

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 financial statements. 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. On 13 April 2006, the Company, the Investor and the Provisional Liquidators entered into a restructuring agreement for the implementation of the restructuring proposal, details of which are set out in the announcement of the Company dated 21 April 2006.

NON-COMPLIANCE OF APPENDIX 16 "DISCLOSURE OF FINANCIAL INFORMATION" OF THE LISTING RULES

Due to the failure to access 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. Segment information for the Group's turnover and contribution to results by principal activities and geographical areas of operations;
2. The information on the Group's major suppliers and customers;
3. 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;
4. A separate Corporate Governance Report contained the information required under Appendix 23 of the Listing Rules;
5. Details of the number and remuneration of employees, remuneration policies, and the retirement benefits scheme;

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6. Details of charges on group assets; and
7. Details of contingent liabilities and commitments

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 15 to 42.

The Board of Directors of the Company has not recommended the payment of any dividend for the year ended 31 December 2005.

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 financial statements, is set out on pages 44. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in note 19 to the financial statements.

Pursuant to share option schemes adopted on 20 March 1991 and 30 January 1997 (the "Old Schemes"); the Company may grant options to Executive Directors and employees of the Group to subscribe for shares in the Company. The share subscription price of any options granted under the Old Schemes is the higher of 80% of the average of the closing prices of the Company's shares on The Stock Exchange Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date on which an option is granted, and the nominal value of the Company's shares. The maximum number of shares for which options may be granted may not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which have been issued under the Old Schemes.

On 15 April 2002, the Company terminated the Old Schemes and adopted a new share option scheme (the "New Scheme"). The exercisable period for all the options granted under the Old Schemes which entitled the holder to subscribe for the shares of the Company had been expired on 6 March 2003.

The New Scheme shall be valid and effective for a period of 10 years from 15 April 2002, after which period no further share will be granted but the provisions of the New Scheme shall remain in full force and effect in all other respects.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options which must be a business day; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares. Since the date of the adoption of New Scheme, no options have ever been granted.

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 financial statements.

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
Mr. Poon Kwok Shin Edmond (appointed on 11 November 2005)

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.

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 are set out in notes 9 to the financial statements.

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INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURE ORDINANCE (“SFO”)

As at 31 December 2005, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the 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 the 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 2005, 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 had been notified to the Company and the 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 required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required 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:

Director	Nature 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 Profits Limited (see the section “Interests and short position of shareholders discloseable under SFO”)

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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 the 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 of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

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.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's code on corporate governance practices was adopted by reference to the provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company conducts regular reviews of its corporate governance practices to ensure compliance with the CG Code. The Directors are not aware of any non-compliance with the code provisions under the CG Code for the year ended 31 December 2005, except for the deviations mentioned below:

Code Provision A.1.3 stipulated that notices of at least 14 days should be given of a regular Board Meeting to give all Directors an opportunity to attend. For all other Board Meetings, reasonable notice should be given.

During the year ended 31 December 2005, not all notices of regular Board Meetings were issued to the Directors of the Company at least 14 days prior to the relevant Board Meeting.

Code Provision A.4.1 stipulated that Non-Executive Directors should be appointed for a specific term subject to re-election.

The Non-Executive Directors of the Company for the year ended 31 December 2005 were not appointed for a specific term. However, all Non-Executive Directors were subject to the retirement and rotation requirements in accordance with Company's Bye-laws.

Code Provision C.3.3 stipulated the term of reference of the audit committee.

The terms of reference of the audit committee have not been fully documented in accordance with the CG Code.

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POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 23 to the financial statements.

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 which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises Messrs. Lee Shue Shing, Mr. Wu Xiaoke and Mr. Poon Kwok Shin Edmond, the Independent Non-Executive Directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2005.

AUDITORS

Messrs. Ting Ho Kwan & Chan, Certified Public Accountants (Practising), 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

28 April 2006