

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of the Group for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 21 to the financial statements.

The Group is principally engaged in the design, manufacture and sale of certain industry and consumer electronic products, including LCD, PCB and mechanical and quartz timepieces.

Details of the contribution from each of the businesses to profit attributable to shareholders of the Group for the year ended 31st December 2005 is set out in business review under the section “Management Discussion and Analysis”.

SUBSIDIARIES

Information on the principal subsidiaries and associated companies of the Group is set out in note 21 and 22 to the financial statements.

GEOGRAPHICAL LOCATION OF MARKETS

Information on major markets of the Group is set out in note 5 to the financial statements.

RESULTS

Details of the Group's results for the year ended 31st December 2005 are set out in the consolidated income statement of the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December 2005, the distributable reserves of the Company were about RMB5,522,000 as reported in the statutory accounts prepared in accordance with generally accepted accounting principles and relevant financial regulations in the PRC.

PROFIT ALLOCATION

According to the Company Law of the PRC and the Articles of Association of the Company, when distributing net profit each year, the Company shall set aside 10% of its net profit as reported in the PRC statutory accounts for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered share capital) and 5% to 10% for the statutory common welfare fund. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

For the year ended 31st December 2005, the appropriation to the following statutory reserve funds was made by the Company as followed (2004: no appropriation to the following statutory reserve funds was made by the Company due to a loss in overall results recorded):

	2005		2004	
	%	RMB'000	%	RMB'000
Statutory common reserve fund	10%	586	–	–
Statutory common welfare fund	8%	468	–	–
Total	18%	1,054	–	–

RESERVES

Details of the movement in reserves of the Group and the Company during the year are set out in the statements of changes in equity and note 33 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group are set out in note 17 to the financial statements.

DIVIDENDS

For the year ended 31st December 2005, the Board of Directors of the Company has recommended the distribution of a final dividend of RMB0.6 cent per share, totaling RMB3,852,000 (2004: final dividend of RMB1.3 cent per share, totaling RMB8,346,000) from the retained earnings. The final dividend for the year will be paid on 29th June 2006 to all the shareholders whose name appear in the registers of members of the Company at the close of business on 12th May 2006 subject to the approval by the shareholders at the 2005 Annual General Meeting. The register of H shares of the Company will be closed from 15th May 2006 to 13th June 2006 (both days inclusive). In order to qualify for the final dividend, all instruments of transfer, accompanied by the relevant share certificates must be delivered to the H Share Registrar of the Company, Hong Kong Registrars Limited, whose address is at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:00 p.m. on 12th May 2005. According to the Articles of Association of the Company, the dividend distributed to the shareholders of domestic shares will be paid in RMB. The dividend distributed to the shareholders of H shares will be paid in HKD by reference to the exchange rate, which is the average of the closing exchange rate for converting RMB into HKD quoted by the People's Bank of China for five working days preceding the day on which the final dividend is declared.

REPORT OF THE DIRECTORS

FIVE YEAR FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past five years ended 31st December 2005 is set out in the section headed "Financial Summary" of this Annual Report.

MANAGEMENT CONTRACTS

In the year, the Company did not sign or maintain any contracts in respect of the management or administration of overall business or any major business.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's purchases from the five largest suppliers did not exceed 30% of the Group's total purchases for the year ended 31st December 2005.

The Group's five largest customers accounted for approximately 35.61% (2004: 35.75%) of the Group's turnover for the year ended 31st December 2005. Approximately 18.61% (2004: 12.05%) of the Group's turnover was attributed to the largest customer.

The Company, together with its subsidiary Fiyta, held about 3.60% equity interest in the largest customer of the Group. Save as aforesaid, as at 31st December 2005, none of the Directors, their associates, or any shareholders (who, to the knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and five largest suppliers.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes and set out in note 18 to the financial statements.

PLEDGED ASSETS

Information on the pledged assets of Group for the year is set out in note 17 to the financial statements.

BANK LOANS

Information on the bank loans of Group for the year is set out in note 31 to the financial statements.

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the year ended 31st December 2005, the Company did not have any entrusted deposits or overdue deposits in any form.

TAXATION

Details of the Group's taxation for the year are set out in note 12 to the financial statements.

TAXATION POLICY

The Company's taxation was verified under the relevant income tax laws of PRC and the tax relief policy of the Shenzhen Special Economic Zone, is applicable, including 15% enterprise income tax, while companies established in other areas are subject to income tax at a rate of 33%.

SUBSTANTIAL SHAREHOLDER

As at 31st December 2005, as far as was known to the Directors or the chief executive of the Company, the following are the details of the persons (other than the Directors, supervisors or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") or had otherwise notified to the Company:

Long position in the shares:

Name of shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share capital
Substantial Shareholders				
China Aviation Industry Corporation I (中國航空工業第一集團公司) (Note 1)	Interest of controlled corporation	400,000,000 domestic legal person shares	100%	62.31%
China Aviation Industry Corporation II (中國航空工業第二集團公司) (Note 2)	Interest of controlled corporation	400,000,000 domestic legal person shares	100%	62.31%
China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) (Note 3)	Interest of controlled corporation	400,000,000 domestic legal person shares	100%	62.31%
CATIC Shenzhen Company (Note 4)	Beneficial owner	400,000,000 domestic legal person shares	100%	62.31%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDER *(continued)*

Long position in the shares:

Name of shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share capital
Other Shareholders				
Li Ka-Shing	Interest of controlled corporations and founder of discretionary trusts	15,156,000 H shares (Note 5)	6.26%	2.36%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	15,156,000 H shares (Note 5)	6.26%	2.36%
Li Ka-Shing Unity Trustee Corporation Limited	Trustee and beneficiary of a trust	15,156,000 H shares (Note 5)	6.26%	2.36%
Li Ka-Shing Unity Trustcorp Limited	Trustee and beneficiary of a trust	15,156,000 H shares (Note 5)	6.26%	2.36%
Li Ka-Shing Unity Trustee Company Limited	Trustee and beneficiary of a trust	15,156,000 H shares (Note 5)	6.26%	2.36%

Note:

- (1) China Aviation Industry Corporation I (中國航空工業第一集團公司) owns 50% interest in China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) which in turn owns 100% interest in CATIC Shenzhen Company ("CATIC Shenzhen"). Hence it is deemed to be interested in the Shares owned by CATIC Shenzhen;
- (2) China Aviation Industry Corporation II (中國航空工業第二集團公司) owns 50% interest in China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) which in turn owns 100% interest in CATIC Shenzhen. Hence it is deemed to be interested in the Shares owned by CATIC Shenzhen;
- (3) China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) owns 100% interest in CATIC Shenzhen. Hence it is deemed to be interested in the Shares owned by CATIC Shenzhen;

SUBSTANTIAL SHAREHOLDER *(continued)**Note: (continued)*

- (4) Mr. Wu Guang Quan is the president of CATIC Shenzhen, Mr. Sui Yong is the chief accountant of CATIC Shenzhen, Mr. Lai Wei Xuan, Mr. Yan Hai Zhong, Mr. Liu Rui Lin and Mr. Xu Dong Sheng are the vice-president of CATIC Shenzhen, and Mr. Wang Bao Ying is the manager of the Strategy and management department of CATIC Shenzhen. They do not own any Shares in the Company, and have no equity interest in CATIC Shenzhen;
- (5) The above five references to 15,156,000 H shares in the Company comprise:
- (A) The 7,578,000 H shares held by Empire Grand Limited ("Empire Grand"), a wholly-owned subsidiary of Cheung Kong Investment Company Limited, which in turn is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("CKH"); and
 - (B) The 7,578,000 H shares held by Hutchison International Limited ("HIL") which is a wholly-owned subsidiary of Hutchison Whampoa Limited ("HWL").

Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of the Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of the Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of CKH. Certain subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of the Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1, TDT2 and CKH is deemed to be interested in the aggregate 15,156,000 H shares of the Company held by Empire Grand and HIL.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 32 to the financial statements.

PURCHASE, SALE OR REPURCHASE OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or repurchased any of the Company's listed shares during the year ended 31st December 2005.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the laws of the PRC which provides the existing shareholders with pre-emptive rights to purchase new shares in any new issue of the Company according to their respective proportions of shareholding.

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

Mr. Wu Guang Quan	<i>Chairman</i>
Mr. Lai Wei Xuan	
Mr. Sui Yong	
Mr. Yan Hai Zhong	
Mr. Liu Rui Lin	
Mr. Xu Dong Sheng	
Mr. You Lei	
Mr. Wang Bao Ying	(appointed on 9th Aug 2005)
Mr. Xu Ye Chun	(passed away on 7th July 2005)

Independent Non-executive Directors

Mr. Poon Chiu Kwok
 Mr. Eugene Liu
 Mr. Liu Xian Fa

Non-executive Directors

Mr. Wang Bin Bin
 Mr. Li Cheng Ning (appointed on 29th March 2005)
 Mr. Ji Gui Rong (resigned on 29th March 2005)

In accordance with Article 100 of the Company's Articles of Association, Mr. Wu Guang Quan, Mr. Lai Wei Xuan, Mr. Sui Yong, Mr. Liu Rui Lin, Mr. Xu Dong Sheng, Mr. You Lei, Mr. Wang Bao Ying, Mr. Wang Bin Bin, Mr. Li Cheng Ning, Mr. Poon Chiu Kwok, Mr. Eugene Liu and Mr. Liu Xian Fa retire at the forthcoming annual general meeting of the Company, and being eligible, offer themselves for re-election.

Each of the executive Directors has entered into a service contract with the Company. Unless otherwise specified, terms of such contracts, which are identical in all material respects, are as follows:

- (i) Each of the service contracts will expire at the conclusion of the 2005 annual general meeting to be held in 2006;
- (ii) The annual basic salaries and aggregate allowances payable to the executive Directors is RMB1,693,000 (details set out in note 9 to the financial statements); and
- (iii) Each of the executive Directors is entitled to a discretionary annual bonus determined by the Board of Directors based on the Group's salary policy.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(continued)*

Each service contract of the independent non-executive Directors will expire at the conclusion of the 2005 annual general meeting to be held in 2006. The emolument payable to the independent non-executive Director is totally RMB258,000 per annum (details set out in note 9 to the financial statements).

Each service contract of the non-executive Directors will expire at the conclusion of the 2005 annual general meeting to be held in 2006. The emolument payable to the non-executive Directors is totally RMB100,000 per annum (details set out in note 9 to the financial statements).

SUPERVISORS

Mr. Chen Gang, being a supervisor of the Company, will retire at the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election for a term of three years.

The service contract of Mr. Chen Gang will expire at the conclusion of the 2005 annual general meeting to be held in 2006.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of the Directors, Supervisors and Senior Management are set out in the section headed "Directors, Supervisors and Senior Management" in this Annual Report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31st December 2005, so far as is known to the Directors and the chief executive of the Company, none of the Directors or supervisors or chief executive of the Company is interested in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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 the Directors or supervisors or chief executives were taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or 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 Issuers.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31st December 2005 was the Company and any of its subsidiaries or its holding company a party to any arrangement to enable any of the Company's Directors, Supervisors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contracts or arrangements of significance in relation to the Company's business to which the Company was a party and in which the Directors and Supervisors of the Company had material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the emoluments of Directors and Supervisors are set out in note 9 to the financial statements.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

At the First Extraordinary General Meeting 2005 convened on 29th March 2005, Mr. Ji Gui Rong resigned as a non-executive Director of the Company due to his busy working schedules and his resignation was approved at the meeting. It was also resolved that Mr. Li Cheng Ning (李承寧) be elected as a non-executive Director of the Company for a term of office commencing from 29th March 2005 until the conclusion of the 2005 annual general meeting to be held in 2006.

Mr. Xu Ye Chun, an executive Director, passed away on 7th July 2005. Pursuant to the Articles of Association of the Company, at the 2005 interim board meeting of the Company convened on 9th August 2005, the Board appointed Mr. Wang Bao Ying (王寶瑛) as an executive Director for a term of office commencing from 9th August 2005 until the conclusion of the 2005 annual general meeting to be held in 2006.

EMPLOYEES AND SALARIES

As at 31st December 2005, the Group employed approximately 6,886 (2004: 7,200) employees, with employee related costs of approximately RMB213,002,000 (2004: RMB188,202,000). The increase in staff was mainly due to the need of the Group's business development. The Group prepared its competitive salary policy (including for its directors) based on reference to market levels and individual employee's performance.

SOCIAL INSURANCE SCHEMES

Details of the Retirement Fund Scheme and Health Insurance Scheme maintained by the Company are set out in note 11 to the financial statements.

SIGNIFICANT CONNECTED TRANSACTIONS

During the year ended 31st December 2005 particulars of significant transactions entered into in the ordinary course of business between the Group and CATIC Shenzhen, the controlling shareholders or any of its subsidiaries are as follows:

1. Property Management

Details of the property management contracts entered into between the Group and CATIC Shenzhen or any of its subsidiaries as at 31st December 2005 are set out in note 35(a) to the financial statements.

2. Loan From CATIC Shenzhen

Details of the Loan entered into between the Group and CATIC Shenzhen as at 31st December 2005 are set out in note 31(a) and 35(c) to the financial statements.

3. Loan Guaranteed by CATIC Shenzhen

Details of the guarantee entered into between the Group and CATIC Shenzhen as at 31st December 2005 are set out in note 35(a) to the financial statements.

4. Details of other significant connected transaction of the Group as at 31st December 2005 are set out under the section of "OTHER SIGNIFICANT EVENTS" below.

INDEPENDENT DIRECTORS' CONFIRMATION IN RESPECT OF THE CONNECTED TRANSACTIONS

Having reviewed the aforesaid connected transactions, the independent non-executive Directors of the Company have confirmed that such transactions were carried out in the ordinary course of business under normal commercial terms and conditions and in accordance with the agreements governing such transactions, which are reasonable and fair to the interests of the shareholders of the Company.

FOREIGN EXCHANGE RISK

There is no material foreign exchange risk exposure as the Group's products are mainly distributed in the PRC and overseas sales are settled in US\$ or HK\$.

CONTINGENT LIABILITIES

On 14th September 2005, the Company provided a one-year guarantee for a loan of RMB20,000,000 in favour of Fiyta, a subsidiary of the Company.

REPORT OF THE DIRECTORS

MATERIAL LITIGATION

As at 31st December 2005, the Group did not have any material litigation.

OTHER SIGNIFICANT EVENTS

1. Acquisition of 12.06% Legal Person Shares in Nanguang

On 20th January 2005, the Company entered into share transfer agreements respectively with each of China New Era Group Corporation (中國新時代控股(集團)公司), Huangshi Economic and Co-operation Company (黃石市協力經濟合作公司), Agricultural Construction Division 10 of Xinjiang Production and Construction Group (新疆生產建設兵團農業建設第十師) and Beijing Exhibition Centre (北京展覽館) to acquire 12.06% of the non-circulating legal person shares of Nanguang held by the said four companies (the "Acquisition") at a total consideration of RMB47,050,080. Given that Nanguang is owned as to 32.84% by CATIC Shenzhen, the promoter and controlling shareholder of the Company, the Acquisition was considered a connected transaction under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). As the total assets, revenue and consideration ratios of the Acquisition were more than 5% but less than 25%, the Acquisition was required to be disclosed and subject to independent shareholders' approval in accordance with Chapters 14 and 14A of the Listing Rules. An announcement in respect of the Acquisition was made on 21st January 2005 and a circular containing details of the Acquisition was dispatched on 7th February 2005. An extraordinary general meeting of the Company was held on 29th March 2005, at which the independent shareholders approved the Acquisition. As at the date of the publication of the Annual Report, all procedures of share transfers have been completed.

2. Formation of Joint Venture-Shanghai Tian Ma Microelectronics Company Limited

On 1st December 2005, the Company, Tian Ma, Shanghai Industrial Investment (Group) Company Limited (上海工業投資(集團)有限公司), Shanghai State-owned Assets Management Company Limited (上海國有資產經營有限公司) and Shanghai Zhang Jiang (Group) Company Limited (上海張江(集團)有限公司) (the latter three were referred to as "JV Partners") entered into a joint venture agreement to establish a joint venture (the "JV Company") named as Shanghai Tian Ma Microelectronics Company Limited (上海天馬微電子有限公司), which would engage in the construction and operation of production line in tube size thin film transistor liquid-crystal display ("TFT-LCD"). The total investment of the JV Company amounted to approximately RMB3.1 billion. On the same date, the Company entered into a supplemental agreement, pursuant to which the Company undertakes to enter into share transfer agreement(s) to acquire 29% equity interest of the JV Company from any or all of the JV Partners under certain conditions by the end of March 2012. The relevant arrangement constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is subject to approval by shareholders. As such, the Company made an announcement on 1st December 2005 and a circular on 10th February 2006 in this respect. Approval was granted by the shareholders at the extraordinary general meeting held on 28th March 2006.

OTHER SIGNIFICANT EVENTS *(continued)***3. Transfer of 64.5% equity interests in Mould Company**

The Company has signed a share transfer agreement with Shan'xi Baocheng Aviation Science & Technology Corporation (陝西寶成航空科技有限公司) ("Baocheng Company") to dispose of the 64.5% equity interest in Shenzhen Aero-Precision Mould and Plastics Company Limited ("Mould Company") which is effective on 31st December 2005. The consideration was RMB9,833,000. Baocheng Company is 49% indirectly owned by China Aviation Industry Corporation I (中國航空工業第一集團公司), which also indirectly holds 50% of CATIC Shenzhen, the promoter and controlling Shareholder of the Company. As such, the transaction constitutes a connected transaction under Chapter 14A of the Listing Rules. As each of the assets ratio, profits ratio, revenue ratio and consideration ratio is less than 2.5%, the transaction is exempted from requirement for the independent shareholders' approval. The Company made an announcement on 26th January 2006. As at the date of publication of the Annual Report, formalities for the share transfer had been completed.

SUBSEQUENT EVENTS**Share segregation reform of Fiyta, Tian Ma and Nanguang**

According to the share segregation reform requirements of the China Securities Regulatory Commission (中國證券監督管理委員會), the Company, being the holder of non-circulation shares of three A share issuers, namely Fiyta, Tian Ma and Nanguang, agreed to carry out share segregation reform based on the proposals of the three companies. The Company has conducted negotiations with other holders of non-circulating shares of each of the three companies concerning the respective proposals. The Company agreed to the following proposals: (1) offering 3.0 shares for every 10 shares held by the Fiyta A shares holders in exchange for their approval for the conversion of all the non-circulating A shares of Fiyta into listed A shares; (2) offering 3.2 shares for every 10 shares held by the Tian Ma A shares holders in exchange for their approval for the conversion of all non-circulating A shares of Tian Ma into listed A Shares; (3) offering 3.0 shares for every 10 shares held by the Nanguang A shares holders in exchange for their approval for the conversion of all non-circulating A shares of Nanguang into listed A shares. Pursuant to the Listing Rules, the share segregation reforms of Fiyta, Tian Ma and Nanguang constitute a disclosable transaction, major transaction and connected transaction of the Company respectively. The Company has made announcements in respect of such matter. The circular was issued on 20th February 2006. The relevant proposals were approved at the extraordinary general meeting of the Company held on 7th April 2006. As at the date of publication of the Annual Report, the scheme of share segregation reform of Nanguang was approved by shareholders at the extraordinary general meeting of Nanguang held on 7th March 2006, and the share segregation reform was all completed on 10th April 2006. The scheme of share segregation reform of Tian Ma was approved by shareholders at the extraordinary general meeting of Tian Ma held on 12th April 2006. While, the scheme of share segregation reform of Fiyta was not approved at the extraordinary general meeting of Fiyta held on 12th April 2006.

REPORT OF THE DIRECTORS

COMPLIANCE WITH THE CODE

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Practices (“the Code”) of the Listing Rules throughout the financial year ended 31st December 2005, except for the deviation from code provision A.2.1 in respect of the segregation of duties of the roles of chairman and chief executive officer by two different individuals, which are explained in the section headed “Corporate Governance Report” of this annual report.

CONDUCT ON SHARE DEALINGS

The Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules has been adopted as a code of securities transactions for directors and supervisors of the Company. The Company, having made specific enquiries to its directors and supervisors, confirms that, throughout the financial year ended 31st December 2005, all directors and supervisors met the criteria laid down in the said code for securities transactions by directors.

AUDIT COMMITTEE

The Board of the Company has formed an Audit Committee in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The Audit Committee has reviewed and approved the Company’s results announcement and financial statements for the twelve months ended 31st December 2005.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has obtained written confirmations from all independent non-executive Directors concerning their independence in accordance with Rule 3.13 of the Listing Rules. The Directors believe that the existing independent non-executive directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules.

PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this annual report.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers. PricewaterhouseCoopers has been appointed as the Company’s auditors since 2000. A resolution to re-appoint PricewaterhouseCoopers as the Company’s auditors for the year 2006 will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Wu Guang Quan

Chairman

Shenzhen, PRC

19th April, 2006