

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of Mayer Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 22 to the financial statements.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 7 to the financial statements.

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 29 to 32.

The directors recommend the payment of final dividend of RMB1 cent per ordinary share, totaling RMB4,000,000, out of the Company’s special reserve in respect of the year ended 31 December 2005 (2004: RMB12,000,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

SUBSIDIARIES

Particulars of the Company’s principal subsidiaries as at 31 December 2005 are set out in note 22 to the financial statements.

SHARE CAPITAL

Details of movements in the Company’s share capital during the year are set out in note 32 to the financial statements.

RESERVES

Details of movements of the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves of the Company at 31 December 2005 amounted to RMB128,867,000 (2004: RMB148,412,000).

REPORT OF THE DIRECTORS *(continued)*

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The largest and the five largest customers accounted for less than 20% of the Group's total turnover for the year. The largest and the five largest suppliers accounted for 45% and 82% of the Group's purchases for the year, respectively.

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

SHARE OPTION SCHEME

The share option scheme was adopted on 24 May 2004 (the "Share Option Scheme") for the primary purpose of providing incentive and to recognize the contribution of the eligible participants to the growth of the Group and will expire on 24 May 2014. Under the Share Option Scheme, the Board may grant options to eligible full time employees, including any executive, non-executive and independent non-executive directors, and consultants or advisers of the Company and/or any of its subsidiaries.

Up to 31 December 2005, no options have been granted since the adoption of the Share Option Scheme. The total number of shares in respect of which options may be granted under the Share Option Scheme and any other option schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any year is not permitted to exceed 1% of the issued share capital of the Company, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant to the 10 years of the date of grant. No minimum period for which an option must be held is required. The exercise price, which is determined by the Board, is the highest of: (i) the closing price per share on the date of grant; (ii) the average closing price per share for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the issued share capital of the Company as required under the Listing Rules.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares.

REPORT OF THE DIRECTORS *(continued)*

DIRECTORS

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

Executive directors

Mr. Lai Yueh-hsing
Mr. Lo Haw
Mr. Shen Heng-chiang
Mr. Wu Kuo-lung
Mr. Cheng Dar-terng
Mr. Chiang Jen-chin

Non-executive directors

Mr. Hsiao Ming-chih
Mr. Huang Chun-fa

Independent non-executive directors

Mr. Huang Jui-hsiang
Mr. Lin Sheng-bin
Mr. Alvin Chiu

In accordance with article 112 of the Company's Articles of Association, each of Mr. Lo Haw, Mr. Shen Heng-chiang and Mr. Wu Kuo-lung will retire by rotation at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

Biographical details of the directors of the Company are set out on pages 9 to 10.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial term of one year commencing from 21 June 2004 and shall continue thereafter from year to year until and unless terminated by either party by giving to the other party not less than three months' prior written notice.

Each of the non-executive directors and independent non-executive directors has entered into a service agreement with the Company for an initial term of one year commencing from their respective dates of appointment and shall continue thereafter from year to year until and unless terminated by either party by giving to the other party not less than three months' prior written notice.

Save as disclosed above, no directors proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS *(continued)*

The Company has received from each of its independent non-executive directors an annual confirmation of his independence in 2005 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and as at the date of this report, the Company still considers the independent non-executive directors to be independent.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and the Group was entered into or existed during the year.

DIRECTORS’ INTERESTS IN CONTRACTS

Saved as disclosed in note 42 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY

As at 31 December 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the “SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or deemed to have taken under such provisions), or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the share capital of Mayer Steel Pipe Corporation (“Taiwan Mayer”)

Name of director	Number of ordinary shares in Taiwan Mayer				Total	Approximate % of shareholding
	Personal	Family	Corporate	Other		
Mr. Lo Haw	171,311	923	9,424,962	–	9,597,916	6.29%
Mr. Cheng Dar-terng	757,769	29,298	–	–	787,067	0.52%
Mr. Chiang Jen-chin	792	–	–	–	792	0.00%
Mr. Shen Heng-chiang	–	7,000	–	–	7,000	0.01%
Mr. Wu Kuo-lung	3,141,164	49,607	–	–	3,190,771	2.09%

REPORT OF THE DIRECTORS *(continued)*

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY *(continued)*

Long positions in the share capital of Guangzhou Mayer Corp., Ltd. ("Guangzhou Mayer")

Name of director	Number of ordinary shares in Guangzhou Mayer				Approximate % of total shareholding
	Personal	Family	Corporate	Other	
Mr. Lo Haw	–	–	8,160,000	–	6.40%

Save as disclosed above, as at 31 December 2005, none of the directors or chief executives of the Company nor their respective associates, had any interests and short positions 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 and short positions which they have taken, or deemed to have taken under such provisions), or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange, and none of the directors or chief executives, or their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights at any time during the period.

SUBSTANTIAL SHAREHOLDERS

So far as the directors of the Company are aware, the person/entity (not being a director or a chief executive of the Company) who has interests or short positions 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 IV of the SFO, were as follows:

Long positions in the share capital of the Company

Name of shareholder	Number of shares held	Percentage of issued share capital of the Company
Taiwan Mayer <i>(Note)</i>	300,000,000	75%
Mayer Corporation Development International Limited ("BVI Mayer")	300,000,000	75%

Note: BVI Mayer is a wholly-owned subsidiary of Taiwan Mayer. Taiwan Mayer is deemed to be interested in the 300,000,000 shares held by BVI Mayer under the SFO.

Save as disclosed above, as at 31 December 2005, the directors of the Company are not aware of any other person/entity (not being a director or a chief executive of the Company) who has interests or short positions 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 IV of the SFO, or who is directly or indirectly interested in 10% or more of the shares of the Company or equity interest in any member of the Group representing 10% or more of the equity interest in such company.

REPORT OF THE DIRECTORS *(continued)*

DIRECTORS' RIGHT TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors, supervisors or their respective spouse or minor children, 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.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 42 to the financial statements also constituted connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

- (1) On 28 October 2001, the Group entered into a lease agreement with Ms. Shih Hui-ping, the spouse of Mr. Lo Haw (being a director of the Company), pursuant to which the Group agreed to pay a monthly rental of RMB10,000 in respect of the Group's occupation of Shanghai office for a term of five years commencing on 28 October 2001. In the opinion of the directors of the Company, the rental is based on normal commercial terms and is conducted in the ordinary and usual course of business of the Group. This transaction constitutes a de minimis continuing connected transaction exempted from the reporting, announcement and independent shareholders' approval requirements in accordance with Rule 14A.33(3) of the Listing Rules.
- (2) On 1 May 2005, the Group entered into an aircraft lease agreement with Daily Air Corporation, Inc. (the "Daily Air") regarding the leasing of two aircrafts and the provision of consultancy services for a term of three years commencing on 1 May 2005. Mr. Huang Chun-fa, a non-executive director of the Company, is a substantial shareholder of Daily Air. Pursuant to the lease agreement, Daily Air agreed to pay a monthly rental fee and consultancy fee payable of USD26,000 for each aircraft and USD10,000, for the three years ending 31 December 2007, respectively. In the opinion of the directors of the Company, the lease rental is based on normal commercial terms and is conducted in the ordinary and usual course of business of the Group. This transaction constitutes a continuing connected and discloseable transaction exempted from the independent shareholders' approval requirements in accordance with Rule 14A.38 of the Listing Rules.

Further details are set out in the Company's circular dated 6 May 2005.

- (3) On 12 August 2005, an ordinary resolution was passed that Guangzhou Mayer, a subsidiary of the Company, will provide a corporate guarantee (the "Guarantee") of maximum amount of RMB60,000,000 in favour of certain banks of Shanghai Fervent Alloy Wheel Manufacturing Co., Ltd., a fellow subsidiary of the Company. Pursuant to the enforcement of the Guarantee, Guangzhou Mayer will receive a back-to-back guarantee from Taiwan Mayer. This transaction constitutes a connected and discloseable transaction in accordance with the Listing Rules.

Further details are set out in the Company's circular dated 15 July 2005.

REPORT OF THE DIRECTORS *(continued)*

POST BALANCE SHEET EVENTS

The Group and the Company had no material post balance sheet events as at the balance sheet date.

OTHER MATTERS

Acquisition of 51.83% interest in Fullchamp Technologies Co., Ltd. (the “Fullchamp”)

On 1 November 2005, Sunbeam Holdings Limited, a wholly owned subsidiary of the Company, completed its acquisition of approximately 51.83% interest in the Fullchamp. The total consideration paid by the Group amounted to NTD167,630,000 and was satisfied by cash. Fullchamp is principally engaged in the design, development and manufacture of aluminum forged and forged-spun wheels for automobiles. The directors of the Company believe that the products of Fullchamp, which are targeted to the spare parts of motor vehicles, are in line with the Company’s overall business strategy and the acquisition will be beneficial to the Group.

Senior management and company secretary

Biographical details of the senior management and company secretary of the Group are set out on page 11.

AUDITORS

The financial statements have been audited by CCIF CPA Limited who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

Lai Yueh-hsing

Chairman

Hong Kong, 25 April 2006