

Report of the Directors

The directors of the Company (the “Directors”) have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in investing in listed and unlisted securities. The activities of the subsidiaries of the Company are set out in note 15 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group 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 17 to 55.

The Directors do not recommend the payment of a final dividend for the year.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 22 to the financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company during the year are set out on page 20.

Under the Companies Law of the Cayman Islands, share premium of the Company is available for distributions or paying dividends to the shareholders subject to the provisions of its Memorandum and Articles of Association and a statutory solvency test. In accordance with Article 143 of the Company’s Articles of Association, dividends may be declared and paid out of the profit of the Company or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared or paid out of share premium account. There were no reserves available for distribution in both years ended 31 December 2005 and 2004.

MAJOR CUSTOMERS AND SUPPLIERS

The Group’s entire turnover is derived from the Group’s investments in listed and unlisted securities and thus the disclosure of customers and suppliers information would not be meaningful.

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DIRECTORS

The Directors of the Company (the “Directors”) during the year and up to the date of this report were as follows:

Executive Directors

Mr. Ng Hon Cheung, Sannio

Ms. Wan Ho Yan, Letty

Mr. Wong Wai Kwok

(appointed on 15 February 2005 and
resigned on 14 November 2005)

Independent Non-executive Directors

Mr. Yan Mou Keung, Ronald

Mr. Cheng Wing Keung, Raymond

Mr. Lo Wah Wai

In accordance with Article 87(3) of the Company’s Articles of Association, all Directors retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS

As at 31 December 2005, none of the Directors, the chief executive of the Company or any of their associates had interests or short positions in any shares, underlying shares and debentures of the Company or any of its subsidiaries or other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) as recorded in the register required to be kept under Section 352 of the 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.

SHARE OPTIONS

Particulars of the Company’s share option scheme are set out in note 23 to the financial statements. No option has been granted or agreed to be granted under the share option scheme from the date of adoption of the scheme.

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DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as disclosed in note 23 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of substantial shareholders maintained by the Company pursuant to section 336 of SFO shows that other than being a director or the chief executive of the Company, the following shareholders' had notified the Company of the relevant interests amounting to 5% or more of the ordinary shares in issue:

Long positions

Name of shareholders	Note	Total number of ordinary shares held	Capacity	% of total issued shares
Cosmopolitan International Holdings Limited	1	130,896,000	Held by controlled corporation	27.27%
Wan Chuen Chung, Joseph	2	95,976,000	Held by controlled corporation	19.99%
Kenfair International (Holdings) Limited	3	92,616,000	Held by controlled corporation	19.30%
Lam Sai Mann	4	45,600,000	Held by controlled corporation	9.50%
Cheng Fat Ning, Lenda	5	44,164,000	Held by controlled corporation	9.20%

Notes:

1. Apart from a direct holding of 4,484,000 shares in the Company, Cosmopolitan International Holdings Limited is deemed to be interested in 126,412,000 shares held by Core Success Limited. Core Success Limited is wholly owned by Cosmopolitan International Holdings Limited, whose shares are listed on the Stock Exchange.
2. Wan Chuen Chung, Joseph is deemed to be interested in 95,976,000 shares held by International Securities Investment Limited, which is indirectly wholly-owned by Wan Chuen Chung, Joseph.
3. Kenfair International (Holdings) Limited is a company whose shares are listed on the Stock Exchange.
4. Lam Sai Mann is deemed to be interested in 45,600,000 shares held by Joint Success Limited, which is wholly owned by Lam Sai Mann.
5. Cheng Fat Ning, Lenda is deemed to be interested in 44,164,000 shares held by Best News Investment Limited, which is wholly owned by Cheng Fat Ning, Lenda.

Save as disclosed above, the Directors are not aware of any person who has an interest or short position in the shares or underlying shares of the Company (which is discloseable under Divisions 2 and 3 of the Part XV of the SFO), or is directly or is indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (which is discloseable under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

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CONNECTED TRANSACTIONS AND DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than the connected transactions as disclosed in note 25 to the financial statements, there are no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules and no contract of significance, to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

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

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2005, the Directors had not aware of any business or interest of the Directors and their associates that compete or may compete with the business of the Group and any conflicts of interests which any such person has or may have with the Group.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with Rule 3.21 of the Listing Rules.

The audit committee of the Company currently comprises three independent non-executive Directors. The principal duties of the audit committee are to review and supervise of the financial reporting process and internal controls of the Group. The audit committee has reviewed the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters with the management of the Company. The Group's audited consolidated financial statements for the year ended 31 December 2005 have been reviewed by the audit committee at the audit committee meeting on 20 April 2006.

CODE OF BEST PRACTICE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, during the year, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the independent non-executive Directors are not appointed for a specific terms as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers ("Model Code") set out in Appendix 10 of the Listing Rules as the Code of Conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the year.

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PRE-EMPTIVE RIGHTS

There are no provisions 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 to existing shareholders.

SUFFICIENCY OF 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 annual report, the Company has maintained a sufficient public float as required under the Listing Rules throughout the year ended 31 December 2005.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 56.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent.

AUDITORS

Messrs. Deloitte Touche Tohmatsu, Charles Chan, Ip & Fung CPA Ltd. and KLL Associates CPA Limited, acted as auditors of the Company for the years ended 31 December 2002, 2003 and 2004, respectively. Subsequent to KLL Associates CPA Limited's resignation in 2005, Messrs. BDO McCabe Lo Limited were appointed as auditors of the Company.

A resolution will be proposed in the forthcoming annual general meeting of the Company to re-appoint BDO McCabe Lo Limited as auditors of the Company.

On behalf of the Board

China Investment Fund Company Limited

Ng Hon Cheung, Sannio

Director

Hong Kong, 20 April 2006