

Report of the Directors

The directors present their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries, jointly-controlled entity and principal associates are set out in notes 18, 19 and 20 to the financial statements respectively.

Except for treasury investment being regarded as part of the principal activities, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 18 to 61.

The directors recommend the payment of a final dividend of HK\$0.003 per ordinary share in respect of the year, to shareholders on the register of members on 29 April 2005 subject to the approval of shareholders at the forthcoming annual general meeting. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and turnover by geographical area of operations for the year ended 31 December 2004 is set out in note 4 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 62. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 15 and 16 to the financial statements, respectively.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 18 to the financial statements.

JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group's investments in its jointly-controlled entity and principal associates are set out in notes 19 and 20 to the financial statements respectively.

CONVERTIBLE NOTES

Details of the Company's convertible notes are set out in note 28 to the financial statements.

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SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the Company's share capital and share options are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under 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 31 to the financial statements and in the consolidated statement of changes in equity respectively.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$352,000.

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

Cheung Chung Kiu

Yuen Wing Shing

Zhang Qing Xin

Lam Hiu Lo

Liang Kang

Chu Chow Wai (alternative director to Cheung Chung Kiu)

Non-executive director:

Lee Ka Sze, Carmelo (redesignated from independent non-executive director on 30 September 2004)

Independent non-executive directors:

Wong Wai Kwong, David

Ng Kwok Fu (appointed on 30 September 2004)

Wong Yat Fai (appointed on 30 September 2004)

In accordance with bye-law 87 of the Company, Zhang Qing Xin and Lam Hiu Lo will retire by rotation and, being eligible, will offer themselves for re-election as executive directors of the Company at the forthcoming annual general meeting.

Ng Kwok Fu and Wong Yat Fai, being appointed as independent non-executive directors on 30 September 2004, hold such office only until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as independent non-executive directors in accordance with bye-law 86(2) of the Company.

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DIRECTORS *(continued)*

Lee Ka Sze, Carmelo, being re-elected as independent non-executive director on 6 May 2004 and redesignated as non-executive director on 30 September 2004, will hold such office until the forthcoming annual general meeting, and being eligible, will offer himself for re-election as non-executive director.

Wong Wai Kwong, David, being re-elected as independent non-executive director on 6 May 2004, will hold such office until the forthcoming annual general meeting and, being eligible, will offer himself for re-election as independent non-executive director.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 9 to 10 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

On 19 October 1993, Cheung Chung Kiu entered into a service contract with the Company for an initial term of three years commencing on 1 June 1993, which has and will continue thereafter until terminated by either party giving to the other not less than three months' notice in writing.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2004, the interests and short positions of the directors and chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to 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 Issuers, were as follows:

(i) **Long positions in the Company's ordinary shares:**

Name of director	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Cheung Chung Kiu	Corporate <i>(Note 1)</i>	3,194,434,684	37.79%
	Personal	53,320,000	0.63%
Zhang Qing Xin	Personal	13,600,000	0.16%
Lam Hiu Lo	Personal	41,800,000	0.49%
Liang Kang	Personal	30,000,000	0.35%
Ng Kwok Fu	Personal and family	4,054,000	0.05%

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

(ii) Long position in the Company's convertible note:

Name of director	Convertible notes held <i>HK\$</i>	Number of underlying shares held	Capacity and nature of interest	Percentage of issued share capital
Cheung Chung Kiu	<u>70,000,000</u>	<u>933,333,333</u>	Corporate (Note 2)	11.04%

(iii) Long positions in shares and underlying shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Shares/equity derivatives	Number of shares held	Capacity and nature of interest	Percentage of associated corporation's issued share capital
Cheung Chung Kiu	Qualipak International Holdings Limited	Subsidiary	Ordinary shares	2,352,396,360	Corporate (Note 3)	59.71%
	Y.T. Realty Group Limited	Associated company	Ordinary shares	273,000,000	Corporate (Note 4)	34.25%
Lee Ka Sze, Carmelo	Qualipak International Holdings Limited	Subsidiary	Ordinary shares	1,000,000	Family	0.03%
Ng Kwok Fu	Qualipak International Holdings Limited	Subsidiary	Ordinary shares	120,000	Personal	0.003%
	Y.T. Realty Group Limited	Associated company	Ordinary shares	90,000	Personal and family	0.01%

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

(iii) Long positions in shares and underlying shares of associated corporations: *(continued)*

Notes:

- (1) The voting rights of these shares are exercisable by Chongqing Industrial Limited. Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing Industrial Limited respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

- (2) The convertible note is held by Timmex Investment Limited, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%. Pursuant to the terms of the convertible notes, the number of underlying shares that may be converted under the convertible note is 933,333,333. The aggregate percentage of interests in ordinary shares and underlying shares of Mr. Cheung Chung Kiu is 49.46%.
- (3) The 2,352,396,360 shares are held by Regulator Holdings Limited ("Regulator"). Regulator is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.
- (4) The 273,000,000 shares are held by Funrise Limited ("Funrise"). Funrise is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

In addition to the above, certain directors have non-beneficial personal interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2004, none of the directors and chief executive or their associates had registered an interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executives' interests and short position in the shares, underlying shares and debentures of the Company and its associated corporations" above, 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 director or their respective spouse or 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.

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DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions set out in note 37 to the financial statements, no director had a material interests, either directly or indirectly, in any contract of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the balance sheet date, the following interests of 5% or more of the issued share capital and the underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares/ underlying shares held	Percentage of the Company's issued share capital
Timmex Investment Limited	1	Corporate	933,333,333	11.04%
Chongqing Industrial Limited	2	Corporate	3,194,434,684	37.79%
Palin Holdings Limited	3	Trustee of a Family Trust	3,194,434,684	37.79%
Cheung Chung Kiu	4	Corporate and personal	<u>4,181,088,017</u>	49.46%

Notes:

- (1) The interests represents the shares issuable upon the exercise of the conversion right attaching to the convertible note of HK\$70,000,000 that is held by Timmex Investment Limited, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.
- (2) The voting rights of these shares are exercisable by Chongqing Industrial Limited which is controlled by Mr. Cheung Chung Kiu.
- (3) Palin Holdings Limited is the trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.
- (4) Out of the 4,181,088,017 shares, 3,194,434,684 shares are held by Chongqing Industrial Limited and 53,320,000 shares are held by Mr. Cheung Chung Kiu personally. The remaining balance of 933,333,333 shares are the underlying shares interested by Timmex Investment Limited.

Save as disclosed above, as at 31 December 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short position in the shares, underlying shares and debentures of the Company and its associated corporations" above, had registered an interests or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$869,937,000, of which HK\$25,360,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account in the amount of HK\$840,629,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 22% of the total sales for the year and sales to the largest customer included therein amounted to 8%.

Purchases from the Group's five largest suppliers accounted for 24% of the total purchases for the year and purchases from the largest supplier included therein amounted to 7%.

As far as the directors are aware, neither the directors of the Company, their associates, nor any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interests in the Group's five largest customers and five largest suppliers.

LIQUIDITY AND CAPITAL RESOURCES

As at the balance sheet date, the Group's net current assets amounted to approximately HK\$1,316 million with a current ratio of 11.1. The cash and cash equivalents of the Group increased from approximately HK\$523 million to HK\$566 million during the year.

The Group had short term banking facilities of approximately HK\$273 million as at 31 December 2004. The Group does not have any outstanding bank loans as at the balance sheet date.

CONNECTED TRANSACTIONS

The Group has entered into a sub-tenancy agreement for the premises situated at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, with Chongqing Industrial Limited ("CQ"), being a substantial shareholder of the Company for the year. The monthly rental and other charges for the sub-tenancy is HK\$77,869 and a security deposit of HK\$155,738 was paid to CQ. Total rent and other charges paid for the year was approximately HK\$935,000.

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CONNECTED TRANSACTIONS *(continued)*

On 18 June 2001, the Company entered into an agreement with Timmex Investment Limited ("Timmex") in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$100,000,000 ("Note 1"). Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu, a director of the Company. Note 1 conferred the right on the holder to convert whole or part of the principal amount of Note 1 into ordinary shares of the Company at any time from the date of its issue for a period of three years, at a conversion price of HK\$0.10 per share in the first year, HK\$0.11 per share in the second year and HK\$0.12 per share in the third year, subject to adjustment. Interest on Note 1 is accrued from the date of issue on a day-to-day basis at 5% per annum on the principal amount of Note 1 and is payable annually in arrears. On 25 May 2004, the Company entered into an agreement with Timmex in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$70,000,000 ("Note 2"). Note 2 became unconditional and was completed on 31 July 2004 and conferred the right on the holder to convert whole or part of the principal amount of Note 2 into ordinary shares of the Company at any time from the date of its issue for a period of three years, at a conversion price of HK\$0.075 per share in the first year, HK\$0.082 per share in the second year and HK\$0.089 per share in the third year (subject to adjustment). Note 2 will mature for principal repayment on 31 July 2007. Interest on Note 2 is accrued from the date of issue on a day-to-day basis at 3% per annum on the principal amount of Note 2 and is payable annually in arrears. Note 1 was replaced by Note 2 with the balance of HK\$30,000,000 fully paid on 31 July 2004. During the year, interest expense paid to Timmex amounted to HK\$3,776,000 (2003: HK\$5,000,000).

CODE OF BEST PRACTICE

None of the directors are aware of any information that would reasonably indicate that the Company is not or was not in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the then Listing Rules of the Stock Exchange for any part of the year covered by the annual report.

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 comprised the two independent non-executive directors of the Company up to 29 September 2004 and comprises the three independent non-executive directors and the non-executive director of the Company as from 30 September 2004.

AUDITORS

Ernst & Young 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

Cheung Chung Kiu

Chairman

Hong Kong, 30 March 2005