

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

During the year, the Company acted as an investment holding company and the activities of its principal subsidiaries were investment holding, property and asset management, garment manufacturing and trading and property investment and development.

Other particulars of the principal subsidiaries of the Company as at 31st December, 2005 are set out in note 50 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 33.

An interim dividend of HK4 cents (2004: HK4 cents) per share amounting to HK\$21.4 million (2004: HK\$20.5 million) was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK6 cents (2004: HK6 cents) per share to the shareholders whose names appear on the register of members on 18th May 2006, amounting to HK\$33.1 million (2004: HK\$30.7 million), and the retention of the remaining profit for the year.

The state of affairs of the Group and the Company as at 31st December, 2005 is set out in the consolidated balance sheet on pages 34 and 35 and note 49 to the consolidated financial statements respectively.

SHARE CAPITAL AND WARRANTS

Details of the movements in the share capital and outstanding warrants of the Company during the year are set out in notes 35 and 36 to the financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2005 were as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Contributed surplus	190,081	190,081
Retained profits	1,592,724	1,620,791
	1,782,805	1,810,872

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Directors' Report

INVESTMENT PROPERTIES

All the investment properties of the Group were revalued at 31st December, 2005. The net increase in fair value of investment properties amounting to HK\$1,251.1 million has been credited directly to the income statement (In 2004, the net surplus arising on revaluation amounting to HK\$345.3 million, of which HK\$351.6 million attributable to the Group was credited directly to the investment property revaluation reserve).

Details of this and other movements during the year in the investment properties of the Group are set out in note 17 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, properties under development with a total carrying value amounting to HK\$200.0 million and HK\$273.1 million were transferred to properties held for sale and investment properties respectively. (In 2004, properties under development with a total carrying value amounting to HK\$222.0 million were transferred to properties held for sale, and investment properties with a total carrying value amounting to HK\$145.8 million were transferred to properties under development.) Additions of properties under development for the year amounted to HK\$102.3 million (2004: HK\$128.3 million).

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

MAJOR PROPERTIES

Details of the major properties of the Group held for investment purposes, under development and under development for sale at 31st December, 2005 are set out in the Property Portfolio on pages 4 and 5.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights 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.

DIRECTORS

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

Executive directors

Mr. Lu Wing Chi
(Chairman and Managing Director)
 Mr. Lincoln Lu
 Mr. Lambert Lu
 Mr. Lu Wing Yuk, Andrew
 Mr. Lu Wing Lin (resigned on 30th November, 2005)
 Mr. Tse Man Bun

Non-executive directors

Mr. Lu Yong Lee (resigned on 30th November, 2005)
 Mr. Lam Sing Tai (appointed on 7th April, 2006)

Directors' Report

Independent non-executive directors

Mr. Walujo Santoso, Wally

Mr. Leung Hok Lim

Mr. Chung Pui Lam

In accordance with Bye-law 88 of the Company's Bye-laws, Messrs. Lincoln Lu and Leung Hok Lim will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 95 of the Company's Bye-laws, Mr. Lam Sing Tai will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance (in relation to the Group's business) to which the Company or any of its holding companies or 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than the share options as more fully described below, at no time during the year was the Company, any of its holding companies or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the following directors are considered to have interests in business which compete, or might compete, either directly or indirectly, with the business of the Group:

- (i) Mr. Lu Wing Chi also holds shareholdings (on behalf of himself and his associates) and directorships in a number of private companies controlled by, or owned in conjunction with, his close relatives and associates. From time to time, such companies are involved in real estate investment and development, and textile manufacturing and trading. In this regard, Mr. Lu is considered to have interests in businesses which compete or might compete, either directly or indirectly, with the businesses of the Group.
- (ii) Messrs. Lincoln Lu and Lambert Lu are the sons of Mr. Lu Wing Chi. In this regard, Messrs. Lincoln Lu and Lambert Lu are considered to have interests in the competing businesses in which Mr. Lu Wing Chi is deemed interested. Messrs. Lincoln Lu and Lambert Lu also hold shareholdings (on behalf of themselves and their associates) and directorships in a number of private companies controlled by, or owned in conjunction with, their close relatives and associates. From time to time, such companies are involved in real estate investment and development, and textile manufacturing and trading. In this regard, Messrs. Lincoln Lu and Lambert Lu are considered to have interests in businesses which compete or might compete, either directly or indirectly, with the businesses of the Group.

Directors' Report

- (iii) Mr. Lu Wing Yuk, Andrew is also the managing director of Kian Nan Trading Company Limited whose businesses include textile manufacturing and trading and he holds shareholdings (on behalf of himself and his associates) and directorships in a number of private companies controlled by, or owned in conjunction with, his close relatives and associates. From time to time, such companies are involved in real estate investment and development. In this regard, Mr. Lu is considered to have interests in businesses which compete or might compete, either directly or indirectly, with the businesses of the Group.
- (iv) Mr. Tse Man Bun is also an independent non-executive director of HSBC Insurance (Asia) Limited, China Fishery Group Limited, Tysan Holdings Limited and Crystal International Limited. The principal businesses of Tysan Holdings Limited include building construction and property development, investment and management. In this regard, he is considered to have interests in businesses which compete or might compete, either directly or indirectly, with the businesses of the Group. The principal businesses of Crystal International Limited include garment trading and manufacturing. However, having considered the scale of garment business the Group is involved, Mr. Tse is not considered by the Group to have interests in businesses which compete or might compete, either directly or indirectly, with the businesses of the Group. In addition, Mr. Tse and his associates also invest from time to time in real estate investment and development. Again, the scale and nature of such investments do not fit the investment profile of the Group. Hence, Mr. Tse is not considered by the Group to have interests which compete or might compete with the businesses of the Group as a result of such investments.

However, as the board of directors of the Company as a whole is independent of the boards of directors of the above companies or individuals, the Group is capable of carrying on its businesses independently of, and at arm's length from, the said competing businesses.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company, or any of its holding companies or subsidiaries were entered into or subsisted during the year.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 31st December, 2005, the interests and short positions of the directors and the chief executive 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")) as 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 and short positions, if any, which they are taken or deemed to have under such provisions of the 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

1. Long positions in shares and underlying shares of the Company

Name of directors	Number of shares		Number of underlying shares			Total	% of shares in issue
	Beneficial interests	Interests held by controlled corporation	(warrants)		(share options)		
			Beneficial interests	Interests held by controlled corporation	Beneficial interests		
Lu Wing Chi	-	-	-	-	12,500,000	12,500,000	2.28
Lincoln Lu	618,000	283,281,811	572,717	53,897,812	-	338,370,340 *	61.70
Lambert Lu	610,000	283,281,811	572,717	53,897,812	-	338,362,340 *	61.70
Lu Wing Yuk, Andrew	-	-	-	-	3,000,000	3,000,000	0.55
Tse Man Bun	100,000	-	-	-	-	100,000	0.02

Note: * Of these shares and warrants of the Company, 283,281,811 shares and warrants carrying 53,897,812 underlying shares deemed to be interested by Messrs. Lincoln Lu and Lambert Lu represented the same interests and were therefore duplicated amongst these two directors for the purpose of the SFO. 283,281,811 shares and warrants carrying 51,786,743 underlying shares out of such shares were held by Nan Luen International Limited ("Nan Luen"), which was 63.58% owned by JCS Limited ("JCS"), and warrants carrying 2,111,069 underlying shares were held directly by JCS. JCS was 26.09% owned by a discretionary trust, of which both directors are beneficiaries. In addition, Messrs. Lincoln Lu and Lambert Lu were each interested in 11.95% of the issued shares in JCS directly. JCS was deemed to be a controlled corporation of each of Messrs. Lincoln Lu and Lambert Lu by virtue of the SFO.

Directors' Report

2. Long positions in shares and underlying shares of associated corporations

(a) JCS

Name of directors	Number of shares			% of shares in issue
	Beneficial interests	Interests as discretionary trust beneficiary	Total	
Lu Wing Chi	3,000	12,000 ¹	15,000	32.61
Lincoln Lu	5,500	12,000 ¹	17,500	38.04
Lambert Lu	5,500	12,000 ¹	17,500	38.04

(b) Nan Luen

Name of directors	Interests held by controlled corporation	% of shares in issue
Lincoln Lu	99,480 ²	63.58
Lambert Lu	99,480 ²	63.58

Notes:

- 12,000 shares in JCS deemed to be interested by Messrs. Lu Wing Chi, Lincoln Lu and Lambert Lu represented the same interests and were therefore duplicated amongst these three directors for the purpose of the SFO. Such shares were held by a discretionary trust, of which these three directors were beneficiaries.
- 99,480 shares in Nan Luen deemed to be interested by Messrs. Lincoln Lu and Lambert Lu represented the same interests and were therefore duplicated amongst these two directors for the purpose of the SFO. Those shares were held by JCS, which was deemed to be a controlled corporation of each of Messrs. Lincoln Lu and Lambert Lu by virtue of the SFO.

Further details of the interests of the directors and chief executive in the share options are stated in the section headed "Share Options" below.

Saved as disclosed above, as at 31st December, 2005, none of the directors and chief executive nor their respective associates had any interests or short positions 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).

SHARE OPTIONS

Share Options are unlisted and physically settled derivatives to subscribe for shares in the Company.

Directors' Report

Old scheme

The Company operates an Employee Share Option Scheme (the "Old Scheme") adopted by an ordinary resolution on 23rd June, 2000, which complies with the Listing Rules as existed prior to 1st September, 2001. The rules governing share options were revised to the form currently set out in Chapter 17 of the Listing Rules on 1st September, 2001. According to the transitional arrangement set out in the Listing Rules, the Company cannot grant further options under the Old Scheme unless the scheme is amended to comply with the new requirements set out in the Listing Rules. The Company has not granted any share options since 1st September, 2001. At the special general meeting held on 19th August, 2005, the Old Scheme was terminated.

New scheme

The Company adopted a New Employee Share Option Scheme (the "New Scheme") which was in compliance with the new requirements set out in the Listing Rules at the special general meeting held on 19th August, 2005 (the "Approval Date").

A summary of the principal terms of the New Scheme is set out below:–

1. Purpose

- (a) The New Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions which the Participants (as defined in paragraph 2 below) have made or may make to the Group.
- (b) The New Scheme will provide the Participants with an opportunity to have a personal stake in the Company with a view to motivating the Participants to utilise their performance and efficiency for the benefit of the Group and attracting and retaining or otherwise maintaining an ongoing relationship with the Participants whose contributions are or will be beneficial to the long term growth of the Group.

2. Participants

The Board may at its discretion grant options to any director (whether executive or independent non-executive director) or full-time employee of any member of the Group.

3. Total number of shares available for issue

(a) 30% limit

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the shares in issue from time to time (the "Scheme Limit").

(b) 10% limit

In addition to the Scheme Limit, and subject to the following paragraph, the total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company must not, in aggregate, exceed 10% of the shares in issue as at the Approval Date, i.e. 53,066,578 shares (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the New Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

Directors' Report

The Company may, from time to time, refresh the Scheme Mandate Limit by obtaining the approval of the shareholders in general meeting. Once refreshed, the total number of securities which may be issued upon exercise of all options to be granted under the New Scheme and all other share option schemes of the Company under the limit, as refreshed, must not exceed 10% of the shares in issue as at the date of approval of the refreshment by the shareholders. Options previously granted under the New Scheme and any other share option schemes, including without limitation any options which are outstanding, cancelled, lapsed or exercised, will not be counted for the purpose of calculating the refreshed Scheme Mandate Limit.

The Company may seek separate approval of the shareholders in general meeting for granting options beyond the Scheme Mandate Limit or the refreshed Scheme Mandate Limit provided that the options in excess of such limit are granted only to the Participants specifically identified before such approval is sought. A circular containing a generic description of the specified Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Participants with an explanation as to how the terms of the options serve such purpose and other information required under the Listing Rules must be sent to the shareholders.

At 7th April, 2006, the total number of shares available for issue under the New Scheme was 53,066,578, which represented approximately 9.62% of the issued share capital of the Company on that date.

4. Maximum entitlement of each Participant

Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue as at the date of such new grant. Where any further grant of options to a Participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates (as defined in the Listing Rules) abstaining from voting.

5. Option period

The period within which the shares must be taken up under an option will be determined by the Board at its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

6. Amount payable upon acceptance of option

HK\$10 is payable by each Participant to the Company on acceptance of an offer of an option, which will be paid within 28 days from the offer date.

7. Minimum period for which an option must be held before exercise

Unless otherwise determined by the Board at its sole discretion, there is no requirement of a minimum period for which an option must be held before such an option can be exercised under the terms of the New Scheme.

Directors' Report

8. Subscription price of shares

The subscription price must be at least the highest of: (a) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of offer of the grant of option which must be a day on which the Stock Exchange is open for the business of dealing in securities (the "Business Day"), and (b) the average of the closing price of the shares as shown on the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the above date of offer; and (c) the nominal value of a share.

9. Remaining life

The New Scheme commenced on 25th August, 2005 when it became unconditional and shall continue in force until the tenth anniversary of such date.

Options granted

During the year, the Company did not grant any share option under the New Scheme. All options granted prior to the termination of the Old Scheme shall continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

During the year, none of the directors (except Mr. Lu Wing Lin who resigned as director of the Company on 30th November, 2005), or their spouses or children under the age of 18 years exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations. Mr. Lu Wing Lin exercised his option rights to subscribe for 7,250,000 shares in the Company at a price of HK\$1.44 each.

As at 31st December, 2005, certain directors had outstanding share options pursuant to the Old Scheme, details of which are as follows:-

Name of directors	Date of grant	Exercise price per share HK\$	Exercisable period	Number of underlying shares comprised in share options		
				Balance as at 1.1.2005	Lapsed during the year	Balance as at 31.12.2005
Lu Wing Chi	4.12.2000	1.44	4.12.2000 – 3.12.2010	12,500,000	–	12,500,000
Lu Wing Yuk, Andrew	4.12.2000	1.44	4.12.2000 – 3.12.2010	3,000,000	–	3,000,000
Total				15,500,000	–	15,500,000

Other particulars of the Old Scheme are set out in note 45 to the consolidated financial statements.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as is known to any director or the chief executive of the Company, as at 31st December, 2005, corporations or persons (other than a director or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:–

Long positions in shares and underlying shares of the Company

Name of shareholders	Capacity	Number of shares	Number of underlying shares (warrants)	Total	% of shares in issue
JCS ²	Beneficial interests	–	2,111,069	2,111,069	
	Held by controlled corporation	283,281,811	51,786,743	335,068,554 ¹	
				337,179,623	61.48
Eaver Company Limited ("Eaver")	Beneficial interests	608,000	–	608,000	
	Held by controlled corporation	283,281,811	51,786,743	335,068,554 ¹	
				335,676,554	61.21
Nan Luen ³	Beneficial interests	283,281,811	51,786,743	335,068,554 ¹	61.09
Pacific Rose Enterprises Limited	Beneficial interests	31,955,873	3,581,257	35,537,130	6.48
Cypress Gold Limited	Beneficial interests	20,013,043	7,711,957	27,725,000	5.06

Notes:

- 283,281,811 shares and warrants carrying 51,786,743 underlying shares interested by Nan Luen and deemed to be interested by JCS and Eaver represented the same interests and were, therefore, duplicated amongst these three shareholders for the purpose of the SFO. JCS and Eaver were respectively interested in 63.58% and 36.42% of the shares in Nan Luen.
- Messrs. Lu Wing Chi, Lincoln Lu and Lambert Lu, all of whom are directors of the Company, are also directors of JCS.
- Messrs. Lu Wing Chi, Lincoln Lu, Lambert Lu and Lu Wing Yuk, Andrew, all of whom are directors of the Company, are also directors of Nan Luen.

Saved as disclosed above, the directors are not aware of any other corporation or person who, as at 31st December, 2005, had any interests or short positions in the shares or underlying shares of the Company recorded in the register required to be kept under Section 336 of the SFO.

Directors' Report

DEALINGS IN THE COMPANY'S SHARES AND WARRANTS

During the year ended 31st December, 2005, the Company did not redeem any of its listed shares or warrants. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares or warrants during the year.

MAJOR SUPPLIERS AND MAJOR CUSTOMERS

The aggregate amount of purchases and sales attributable to the five largest suppliers and customers of the Group accounted for less than 30% in aggregate of the Group's total purchases and sales respectively.

CORPORATE GOVERNANCE

Throughout the year ended 31st December, 2005, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except that the roles of the chairman and chief executive officer were not separated and was performed by the same individual.

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 14 to 20.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors at the date of this report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$53,000 (2004: HK\$122,000).

POST BALANCE SHEET EVENTS

Details of post balance sheet events are set out in note 47 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in Financial Highlights on page 2.

AUDITORS

The financial statements of the Company for the year under review have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Lu Wing Chi

Chairman and Managing Director

Hong Kong, 7th April, 2006