

## **DIRECTORS' REPORT**

The Directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2005.

## **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the financial statements.

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

## **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 26 of the annual report.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

## **SHARE CAPITAL**

Details of the Company's share capital are set out in note 29 to the financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## **DISTRIBUTABLE RESERVES OF THE COMPANY**

As at 31st December, 2005 and 2004, the Company had no reserves available for distribution to shareholders as the contributed surplus is less than the accumulated losses of the Company.

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

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

# DIRECTORS' REPORT

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## 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. Wong Pak Ming (*Chairman*)

Ms. Wong Kit Fong

Ms. Wong Yee Kwan, Alvina

Mr. Ko Tin Chow (appointed on 1st December, 2005)

### Independent non-executive directors:

Mr. Wan Ngar Yin, David

Mr. Lai Voon Wai

Mr. Tang Kai Kui, Terence (appointed on 1st December, 2005)

Mr. Woo, Alan (resigned on 1st December, 2005)

In accordance with Bye-law 87(1) of the Company's Bye-laws, Mr. Lai Woon Wai will retire by rotation and in accordance with Bye-law 86(2) Mr. Ko Tin Chow and Mr. Tang Kai Kui, Terence will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of each of the independent non-executive directors is for an initial term of one year except for Mr. Wan Ngar Yin, David which is for an initial term of two years and thereafter all of which may be extended for such period as both parties agree in writing and the independent non-executive directors are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors are independent.

Each of the executive directors has entered into a service contract with the Company for an initial term of two years which commenced on 1st September, 2001 except for Ms. Wong Yee Kwan, Alvina which commenced on 1st September, 2003 and Mr. Ko Tin Chow which commenced on 1st December, 2005 and all of which continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

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

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

At 31st December, 2005, the interests of the directors, the chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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 (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### Long positions

| Name of director                  | Capacity                       | Number of<br>issued ordinary<br>shares held ( <i>Note 1</i> ) | Percentage<br>of the issued<br>share capital<br>of the Company |
|-----------------------------------|--------------------------------|---|--|
| Mr. Wong Pak Ming<br>("Mr. Wong") | Held by controlled             |   |  |
|                                   | corporations ( <i>Note 2</i> ) | 152,200,000   | 46.1%  |
|                                   | Beneficial owner               | 3,930,000   | 1.2%   |
|                                   | Held by spouse                 | 1,314,000   | 0.4%   |
|                                   |                                | 157,444,000   | 47.7%  |
| Mr. Wan Ngar Yin, David           | Beneficial owner               | 3,292,000   | 1.0%   |
| Ms. Wong Kit Fong                 | Beneficial owner               | 7,232,000   | 2.2%   |
| Ms. Wong Yee Kwan,<br>Alvina      | Beneficial owner               | 2,606,000   | 0.8%   |

#### Notes:

- Shares of HK\$0.10 each in the capital of the Company.
- These shares are held as to 30,000,000 shares by Capeland Holdings Limited and 122,200,000 shares by Idea Storm Holdings Limited, both companies are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong beneficially.

Save as disclosed above, at 31st December, 2005, none of the directors, the chief executive or their associates had any interests or short positions in any securities of the Company or any of its associated corporations.

# DIRECTORS' REPORT

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Options", at no time during the year was the Company, or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the directors or 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 during the year.

## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 30 to the financial statements.

No share options were granted or exercised during the year and no share options were outstanding as at 31st December, 2005.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

| Name of shareholder | Capacity                                 | Number of issued ordinary shares held (Note 1) | Percentage of the issued share capital of the Company |
|---------------------|--|--|---|
| Mr. Wong            | Held by controlled corporations (Note 2) | 152,200,000                                    | 46.1%   |
|                     | Beneficial owner                         | 3,930,000                                      | 1.2%  |
|                     | Held by spouse (Note 3)                  | 1,314,000                                      | 0.4%  |
|                     |  | <u>157,444,000</u>                             | <u>47.7%</u>  |
| Mr. Zhang Xun       | Beneficial owner                         | <u>34,936,000</u>                              | <u>10.6%</u>  |

### Notes:

1. Shares of HK\$0.10 each in the capital of the Company.
2. These shares are held as to 30,000,000 shares by Capeland Holdings Limited and 122,200,000 shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong beneficially.
3. In accordance to SFO, Mr. Wong's spouse is also deemed to be interested in the shares held by Mr. Wong or in which he is interested.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31st December, 2005.

## DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, certain transactions that have been entered into by the Group constituted connected transactions under the Listing Rules. Details are set out below:

During the year, a further advance of HK\$2,831,000 was received from Mr. Zhang Xun, a substantial shareholder of the Company. The further advance bears interest at 3% per annum and will be repayable on or before 31st January, 2007. At 31st December, 2005, the remaining loans from Mr. Zhang Xun in the amount of HK\$8,290,000, apart from the further advance mentioned above, bear interest at 1% per annum and will be repayable on or before 1st January, 2007.

Save as disclosed above, no contract of significance to which the Company or any of 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.

## FINANCIAL ASSISTANCE TO AFFILIATED COMPANY

As at the balance sheet date, the advances made to a jointly controlled entity in the amount of HK\$11,099,000 represents approximately 8.3% of the total assets of the Group before the respective allowance. Pursuant to Rule 13.22 of the Listing Rules, the balance sheet of the affiliated company as at 31st December, 2005 is presented below:

|                     | HK\$'000 |
|---------------------|----------|
| Non-current assets  | 60       |
| Current assets      | 1,865    |
| Current liabilities | 477      |
| Net current assets  | 1,388    |
| Shareholders' funds | 1,448    |

## CORPORATE GOVERNANCE

Please see the "Corporate Governance Report" set out on pages 12 to 16 of this annual report of the Company for details of its compliance with the Code on Corporate Governance Practices.

# DIRECTORS' REPORT

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## **EMOLUMENT POLICY**

The Group remunerates its employees including the directors, based on their performance, experience and prevailing market rate. Other employee benefits included insurance and medical cover, subsidized training programme as well as share option scheme.

The determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

## **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.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for 26% and 63%, respectively, of the Group's total revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for 22% and 50%, respectively, of the Group's total purchases for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers.

## **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

## **AUDITORS**

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**WONG Pak Ming**  
*CHAIRMAN*

Hong Kong, 18th April, 2006