

Chairman's Statement and Management Discussion and Analysis

The Group recorded turnover of HK\$4.0 billion and profit attributable to the equity holders of the Company of HK\$200.8 million for the year ended 31 December 2005, representing an increase of 14% in turnover and an increase in profit of 99% as compared to 2004.

Trading and Manufacturing

The trading and manufacturing operations of the Group recorded a 16% increase in turnover to HK\$2.3 billion and a profit from operations of HK\$81.5 million in 2005 which is a significant improvement over the 2004 results (HK\$1.9 billion and HK\$27.5 million respectively).

Our footwear manufacturing operation continued to achieve an outstanding performance in 2005. It was again awarded "International Supplier of the Year 2005" by Wal-Mart, a major customer of the footwear manufacturing operation, in three consecutive years.

Property Investment and Development

Our property portfolio reported rental income of HK\$12.6 million and a revaluation gain of HK\$108.6 million for the year 2005 (HK\$11.6 million and HK\$25.8 million respectively for the year 2004).

Travel and Related Services

Hong Kong Four Seas Tours Limited ("Four Seas"), our travel business division achieved a 11% increase in turnover to HK\$1.6 billion and recorded an operating profit of HK\$12.2 million for the year 2005. 2005 has been another year of expansion as our core ticketing services continue to increase market share in a competitive environment. Our travel business suffered cut-throat competition in the second quarter of 2005 that caused a decrease in operating profit as compared to the previous year.

Information and Technology

Our portfolio of information technology business units in the PRC recorded a 28% year-on-year increase in turnover to HK\$82.4 million and a minor loss of approximately HK\$49,000.

Agriculture

Our agricultural business continues to be in investment period. Our acreage expansion program has been focused on Hebei province in 2005.

Share of profits and losses of associates

The share of profits and losses of associates included share of loss from Nority International Group Limited ("Nority"), and share of profits and appreciation in fair value of investment properties from associates in Hong Kong and in the PRC.

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LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had a current ratio of 1.14 and a gearing ratio of 3.4% (31 December 2004: 1.13 and 4.4% respectively). The gearing ratio is computed on comparing the Group's total long-term bank borrowings of HK\$41.8 million to the Group's equity of HK\$1,236.3 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings. The Directors believe that the Group has sufficient banking facilities and working capital for its operations.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2005, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

INVESTMENTS

For the year ended 31 December 2005, the Group reduced its available-for-sale investments at fair value through profit or loss by HK\$20.1 million.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments as at 31 December 2005 and up to the date of this Annual Report.

POST BALANCE SHEET EVENT

- (a) On 24 March 2006, Micon Limited ("Micon"), a subsidiary of the Company, acquired additional 9.31% equity interest of Nority from independent third parties at a consideration of approximately HK\$11.7 million. Pursuant to Rule 26.1 of the Takeovers Code, Micon is required to make a mandatory unconditional cash offer for all the remaining issued share capital of Nority.
- (b) At the Special General Meeting of Wah Shing International Holdings Limited ("Wah Shing") held on 20 February 2006, the resolution in relation to the proposed voluntary delisting of Wah Shing from the Official List of the Singapore Exchange Securities Trading Limited ("SGX-ST") pursuant to Rule 1306 of the SGX-ST Listing Manual was duly passed by its shareholders. Up to the date of this Annual Report, the Group had further acquired approximately 26.4% of Wah Shing for a total consideration of approximately HK\$62.2 million. As at the date of this Annual Report, the Group holds 257,283,175 shares in Wah Shing, representing 94.5% of the total issued share capital of Wah Shing.

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MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2005, the Group acquired further approximately 5.8% equity interests in Wah Shing for successive considerations of HK\$12.6 million in connection with the proposed privatisation of Wah Shing.

Save as disclosed above, there were no material acquisitions and disposals during the year.

PLEDGES OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2005, a significant portion of the short-term borrowings was for normal trading purposes with the level of borrowings depending on the level of trading activities. Certain of the property, plant and equipment and a significant portion of investment properties of the Group are secured for the long term banking facilities.

There is no material change in the Group's contingent liabilities as compared to the most recent published annual report.

PROSPECTS

Trading and Manufacturing

The privatisation of the Singapore listed Wah Shing, a principal subsidiary of the Group, was officially passed in the Special General Meeting held on 20 February 2006. Management foresees an improvement on operating result as the delisting will allow us to exercise greater management flexibility in utilizing and deploying the resources of the Group. We stand to gain from streamlining operations with the other industrial business units in our portfolio.

In March 2006, the Group has additionally acquired 9.31% equity interest in a listed associate, Nority. Following the acquisition, the Group holds approximately 51.83% controlling stake in Nority. In April 2006, the Group has made an unconditional cash offer to the shareholders of Nority for all the issued shares not already owned by the Group. Management expects to control Nority as a subsidiary and to incorporate this shoes manufacturing business unit into our existing industrial portfolio. The production capacity of our shoes manufacturing operation will increase substantially.

Management expects 2006 to be a busy year for consolidating and restructuring of our manufacturing operations due to the successful privatisation of Wah Shing and the acquisition of the controlling stake in Nority. We remain optimistic that we should be able to produce solid results in the coming years with our immediate focus on fortifying our industrial platform in the future.

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Property Investment and Development

In the longer term, the Group is looking forward to set the stage to ride on the rising property market in Hong Kong and China. On top of foreseeing more significant property appreciation in the next two years on our existing property portfolio, the management is actively seeking properties at prime retail locations in the PRC.

We are currently engaging in the development of a prime retail shopping complex in Shenyang with a site area of approximately 17,000 square meters located in Zhong Jie (中街), the city's central business district. The project is expected to complete in 2007, which will give us gross retail rental floor areas of approximately 130,000 square meters.

By the second half 2006, we are expecting to increase our stake in a joint venture which owns a prime retail site in the centre of Nanjing city. The site is larger than the Shenyang project and located in Yunan North Road (雲南北路), Gulou District, the city's main shopping district. We expect to put greater efforts to tap its full development potential and upgrade its current rental mix.

Furthermore, by virtue of strategically made industrial investments in the early nineties, the Group's numerous factories in the PRC currently occupy a number of sizeable pieces of land in the city centres of Nanjing and Tianjin. These properties are held under various joint venture companies in Nanjing and Tianjin, and we are in the process of increasing our controlling stake in these joint venture companies where possible.

Due to their prime location and our early involvement at relatively low cost, these parcels of land are all grossly undervalued with extremely attractive redevelopment potential. In the coming five years, the Group intends to rapidly increase shareholders' value by focusing on maximizing the value of each location.

Travel and Related Services

Four Seas is seeking global joint venture partners to expand global corporate customers. Four Seas is looking for several acquisition opportunities and will acquire a PRC ticketing company in Guangzhou to expand its sales and distribution network in the Mainland. We intend to engage more chartered flight destinations for further development as the business has been generating fruitful results in the last two years. Amidst a competitive environment, we expect continuing growth of turnover and profit in the current year. We are exploring opportunities to list it on the Main Board of The Stock Exchange of Hong Kong Limited in the coming year.

Information and Technology

We foresee that each individual business unit will continue to expand healthily in the near future. The primary direction of 2006 will be to achieve synergies across the information and technology business units, to tackle larger projects through sharing of extensive sales networks and technical expertise. We are investigating the possibility of a possible listing in London's AIM Exchange.

Agriculture

We continue to focus on cost savings for individual business unit to refine our business models to a minimum cost structure. Acreage expansion will still be centered within Hebei province due to its relatively low acquisition cost.