

# Report of the Directors:

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 42 to the financial statements. 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 2005 and the state of affairs of the Group at that date are set out in the financial statements on pages 30 to 91.

An interim dividend of 3 HK cents per ordinary share was paid on 19 October 2005. The directors recommended the payment of a final dividend of 5 HK cents per ordinary share in respect of the year to shareholders on the register of members on 6 June 2006.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial periods, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 92. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 16 and 18 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 34 and 35 to the financial statements, respectively.

# Report of the Directors:

## 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 its existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2005, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

## RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

## DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of The Companies Act 1981 of Bermuda (as amended), amounted to HK\$161,109,000, of which HK\$16,658,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$295,684,000, may be distributed in the form of fully paid bonus shares.

## CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK\$1,391,000.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales and purchases attributable to the Group's five largest customers and suppliers accounted for less than 30% of the total Group's sales and purchases for the year, respectively.

# Report of the Directors:

## DIRECTORS

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

### Executive directors:

Lam Foo Wah

Ip Weng Kun

(resigned on 30 December 2005)

Hui Yip Wing

Wong Shing Loong, Raymond

So Siu Hang, Patricia

### Non-executive director:

Chan Wah Tip, Michael

### Independent non-executive directors:

Woo King Wai

Wong Shiu Hoi, Peter

Leung Hok Lim

In accordance with the Company's bye-laws, Messrs. Lam Foo Wah, Hui Yip Wing and Wong Shing Loong, Raymond will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

Pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), each independent non-executive director re-affirmed his independent status with the Company as at 31 December 2005, and the Company considered that they are independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 14 of the annual report.

# Report of the Directors:

## DIRECTORS' SERVICE CONTRACTS

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' INTERESTS IN CONTRACTS

Mr. Chan Wah Tip, Michael, a director of the Company, was interested in contracts for the provision of legal advisory services to the Group. Further details of the transactions undertaken in connection therewith are included in note 41 to the financial statements. Save as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

### (i) Long Positions in the Company's Shares and Underlying Shares

Name of director	Notes	Number of ordinary shares held, capacity and nature of interests			Underlying shares (Note 3)	Total	Percentage of the Company's issued capital
		Personal	Family	Other			
Lam Foo Wah	1, 2	3,800,000	–	129,013,986	–	132,813,986	39.87%
Hui Yip Wing		–	2,652,007	–	–	2,652,007	0.80%
Wong Shing Loong, Raymond		2,600,000	–	–	1,000,000	3,600,000	1.08%
So Siu Hang, Patricia		2,104,309	–	–	720,000	2,824,309	0.85%

# Report of the Directors:

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (cont'd)

### (ii) Long Position in Shares of Associated Corporation

Name of director	Note	Name of associated corporation	Relationship with the Company	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued capital
Lam Foo Wah	4	High Fashion Knitters Limited	Subsidiary	5,339,431	Through controlled corporations	35.60%

#### Notes:

1. Mr. Lam Foo Wah is deemed to have an interest in 94,096,419 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
2. Mr. Lam Foo Wah is deemed to have an interest in 34,917,567 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
3. Details of the interests of directors and chief executives of the Company in the underlying shares of equity derivatives in respect of options granted to them are stated in note 35 to the financial statements.
4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, as at 31 December 2005, none of the directors, chief executive of the Company nor their associates had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the above mentioned Model Code of the Listing Rules. Furthermore, save as disclosed in note 35 to the financial statements, at no time during the year ended 31 December 2005 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# Report of the Directors:

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the interests of the following substantial shareholders, other than directors and chief executives of the Company, in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to Section 336 of the SFO:

### Long Positions in the Company's Ordinary Shares

Name of Shareholder	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Hinton Company Limited	1	Beneficial owner	94,096,419	28.24%
Veer Palthe Voute NV ("VPV")	2	Investment manager	40,009,000	12.01%
Dresdner Bank Aktiengesellschaft ("DBAG")	2	Interest of controlled corporations	40,009,000	12.01%
Allianz Aktiengesellschaft ("AAG")	2	Interest of controlled corporations	40,009,000	12.01%
High Fashion Charitable Foundation Limited	1	Beneficial owner	34,917,567	10.48%
Excel Investments Ltd.		Beneficial owner	27,150,000	8.15%

#### Notes:

1. These interests have been disclosed as interests of Mr. Lam Foo Wah in the "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".
2. The 40,009,000 ordinary shares are held directly by VPV, of which is indirectly controlled by AAG and DBAG and therefore are deemed to have an indirect interest in the 40,009,000 ordinary shares.

Save as disclosed above, as at 31 December 2005, no person, other than the directors and chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## CHANGE OF CHINESE NAME

The Company changed its Chinese name to 達利國際集團有限公司 on 8 June 2005.

# Report of the Directors:

## 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 report, there is a sufficiency of public float of the Company's securities as required under the Listing Rules.

## CHANGE IN ACCOUNTING POLICIES

The explanations for changes in accounting policies are listed out in notes 2 and 3 of the financial statements.

## SUBSEQUENT EVENTS

Details of the subsequent events are disclosed in note 43 to the financial statements.

## AUDITORS

The financial statements for the year ended 31 December 2005 were audited by Deloitte Touche Tohmatsu.

Deloitte Touche Tohmatsu were appointed auditors of the Company on 24 May 2004 in place of Ernst & Young who acted as the auditors of the Company for the years before 2004 annual general meeting, retired and did not offer themselves for re-appointment at 2004 annual general meeting.

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

### **LAM FOO WAH**

*Chairman*

Hong Kong, 13 April 2006