

## REPORT OF THE DIRECTORS

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

### 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 19, 20 and 21 to the financial statements respectively.

There were no significant changes in the nature of the Group's principal activities during the year.

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 99.

The directors recommend the payment of a final dividend of HK\$0.003 per ordinary share to the shareholders whose name appear on the register of members on 8 June 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

### SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal activity and revenue by geographical area of operations for the year ended 31 December 2005 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 restated/reclassified as appropriate, is set out on page 100. 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 are set out in notes 15 and 16 to the financial statements, respectively.

### CONVERTIBLE NOTE

Details of movements in the Company's convertible note during the year are set out in note 31 to the financial statements.

### SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 33 to the financial statements.

### RIGHT OF PRE-EMPTION

There are no provision for right of pre-emption under the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## REPORT OF THE DIRECTORS

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and the consolidated statement of changes in equity respectively.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made a charitable contributions of totaling HK\$173,000.

### DIRECTORS

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

#### Executive Directors

Mr. Cheung Chung Kiu (*Chairman*)

Mr. Yuen Wing Shing (*Managing Director*)

Mr. Zhang Qing Xin

Mr. Lam Hiu Lo

Mr. Liang Kang

#### Non-executive Director

Mr. Lee Ka Sze, Carmelo

#### Independent Non-executive Directors

Mr. Wong Wai Kwong, David

Mr. Wong Yat Fai

Mr. Ng Kwok Fu

Mr. Yuen Wing Shing, wishes to retire at the conclusion of the annual general meeting and being eligible, offer himself for re-election.

In accordance with the Bye-laws, Mr. Liang Kang, Mr. Lee Ka Sze, Carmelo, Mr. Wong Wai Kwong, David, Mr. Wong Yat Fai and Mr. Ng Kwok Fu will retire by rotation at the conclusion of the annual general meeting and being eligible, offer themselves for re-election.

### 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.

## REPORT OF THE DIRECTORS

### DIRECTORS' SERVICE CONTRACTS

On 19 October 1993, Mr. 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 continued and will continue thereafter until terminated by either party giving the other not less than three months' notice in writing.

### 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 2005, 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 ("Model Code") were as follows:

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

Name of director	Nature of interests	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Cheung Chung Kiu	Corporate (note 1)	3,465,434,684	39.72
	Personal	53,320,000	0.61
Mr. Zhang Qing Xin	Personal	13,600,000	0.16
Mr. Lam Hiu Lo	Personal	41,800,000	0.48
Mr. Liang Kang	Personal	30,000,000	0.34

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

Name of director	Nature of interests	Convertible note held HK\$	Number of underlying shares held	Percentage of the Company's issued share capital
Mr. Cheung Chung Kiu	Corporate (note 2)	49,675,000	605,792,682	6.94

## REPORT OF THE DIRECTORS

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

Name of director	Name of associated corporation	Relationship with the Company	Shares	Nature of interests	Number of shares held	Percentage of associated corporation's issued share capital
Mr. Cheung Chung Kiu	Qualipak International Holdings Limited	Subsidiary	Ordinary shares	Corporate (note 3)	2,542,396,360	64.54
	Y.T. Realty Group Limited	Associate	Ordinary shares	Corporate (note 4)	273,000,000	34.14
Mr. Lee Ka Sze, Carmelo	Qualipak International Holdings Limited	Subsidiary	Ordinary shares	Family	1,000,000	0.025
Mr. Ng Kwok Fu	Qualipak International Holdings Limited	Subsidiary	Ordinary shares	Personal	120,000	0.03
	Y.T. Realty Group Limited	Associate	Ordinary shares	Personal and family	90,000	0.01

#### Notes:

- (1) 3,194,434,684 shares were held by Chongqing Industrial Limited ("Chongqing") and 271,000,000 shares were held by Timmex Investment Limited ("Timmex").

Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have 35%, 30%, 5% and 30% equity interests in Chongqing respectively.

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

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

Timmex is beneficially owned by Mr. Cheung Chung Kiu.

- (2) The convertible note is held by Timmex. Pursuant to the terms of the convertible note, the number of underlying shares that may be converted under the convertible note was 605,792,682. The aggregate percentage of interests in ordinary shares and underlying shares of Mr. Cheung Chung Kiu is 47.28%.

## REPORT OF THE DIRECTORS

- (3) The 2,542,396,360 shares were held by Regulator Holdings Limited (“Regulator”) which is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.
- (4) The 273,000,000 shares were held by Funrise Limited (“Funrise”) which is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the beneficiaries 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 2005, none of the directors and chief executives or their associates had registered 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) 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.

### SHARE OPTION SCHEME

The previous share option scheme of the Company adopted in October 1993 was expired in October 2003. At the special general meeting held on 29 April 2005, the Company adopted a new share option scheme (the “Share Option Scheme”), the terms of which are in line with and comply with the requirements of Chapter 17 of the Listing Rules.

No option was granted under the Share Option Scheme and no option is outstanding as at 31 December 2005.

The particulars in relation to the Share Option Scheme that are required to be disclosed under Rules 17.07 to 17.09 of the Listing Rules are set out below:

- |   |   |
|---|---|
| (1) Purposes of the Share Option Scheme     | To provide incentives and rewards to eligible participants for their contributions to the Group and enable the Group to retain existing employees and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group. |
| (2) Participants of the Share Option Scheme | It includes the Company’s directors, officers and employees of the Eligible Group and any executive, officer or employee of any business consultant, professional and other advisers of any member of the Eligible Group.   |

The Eligible Group includes:

- (i) the Company and each of its substantial shareholders;
- (ii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the Company or of a substantial shareholder referred to in (i) above;
- (iii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (ii) above; and
- (iv) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iii) above.

## REPORT OF THE DIRECTORS

- |     |  |  |
|-----|--|--|
| (3) | The total number of securities available for issue under the Share Option Scheme together with the percentage of the issued share capital that it represents as at the date of the annual report | 845,332,170 ordinary shares and 9.7% of the existing issued share capital.   |
| (4) | The maximum entitlement of each participant under the Share Option Scheme  | <p>Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.</p> <p>In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates in the past twelve months representing in aggregate over 0.1% of the issued share of the Company and having an aggregate value of HK\$5 million based on the closing price of the shares at the date of each grant, then the proposed grant of option must be subject to approval by Shareholders in a general meeting.</p> |
| (5) | The period within which the securities must be taken up under an option  | An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the Share Option Scheme.   |
| (6) | The minimum period for which an option must be held before it can be exercised   | There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.  |
| (7) | Amount payable on acceptance of the option and the period within which such payment must be made   | The offer of a grant of share options may be accepted with a consideration of HK\$1 being payable by the grantee.  |

## REPORT OF THE DIRECTORS

- |   |  |
|---|--|
| (8) The basis of determining the exercise price   | The exercise price is determined by the directors and shall be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of the Company's shares. |
| (9) The remaining life of the Share Option Scheme | The Share Option Scheme remains in force until 28 April 2015.  |

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

There has been no share options granted by the Company since the adoption of the Share Option Scheme.

### DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' and Chief executives' interests and short position in the shares, underlying shares and debentures of the Company and its associated corporations" and "Share Option Scheme" 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 minor 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.

### DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions set out in note 41 to the financial statements, no directors had a material interest, 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.

## REPORT OF THE DIRECTORS

### DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

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

#### Long positions:

Name	Notes	Capacity and nature of interests	Number of ordinary shares/ underlying shares held	Percentage of the Company's issued share capital
Timmex	1	Corporate	876,792,682	10.05
Chongqing	2	Corporate	3,194,434,684	36.62
Palin Holdings Limited	3	Trustee of a Family Trust	3,194,434,684	36.62
Mr. Cheung Chung Kiu	4	Corporate and personal	<u>4,124,547,366</u>	47.28

#### Notes:

- (1) The interests represent the aggregate of 271,000,000 shares held and 605,792,682 shares issuable upon the exercise of the conversion right attaching to the convertible note of HK\$49,675,000 that was held by Timmex, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.
- (2) The voting rights of these shares are exercisable by Chongqing 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 beneficiaries include Mr. Cheung Chung Kiu and his family.
- (4) Out of the 4,124,547,366 shares, 3,194,434,684 shares and 271,000,000 shares are held by Chongqing and Timmex respectively and 53,320,000 shares are held by Mr. Cheung Chung Kiu personally. The remaining balance of 605,792,682 shares are the underlying shares interested by Timmex.

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 position in the shares, underlying shares and debentures of the Company and its associated corporations" above, had registered interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### 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.



## REPORT OF THE DIRECTORS

### DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$870,179,000, of which HK\$26,173,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account in the amount of HK\$858,931,000, 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 42% of the total sales for the year and sales to the largest customer included therein amounted to 21%.

Purchases from the Group's five largest suppliers accounted for 28% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10%.

As far as the directors are aware, neither the directors of the Company and their associates, nor any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest 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\$1,046 million with a current ratio of 5.3. The cash and cash equivalents of the Group decreased from approximately HK\$558 million to approximately HK\$510 million during the year.

The Group had short term banking facilities of approximately HK\$311 million as at 31 December 2005. The Group had outstanding bank loans of approximately HK\$15.4 million as at the balance sheet date. An analysis of the bank borrowings is set out in note 29 to the financial statements.

### CONNECTED TRANSACTIONS

The Group entered into a sub-tenancy agreement with Chongqing, a substantial shareholder of the Company in relation to a premises situate at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The total rent and other charges amounted to approximately HK\$964,000 for the year.

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 (the "Convertible Note"). The Convertible Note became unconditional and was completed on 31 July 2004. It conferred a right on the holder to convert the whole or part of the principal amount of the Convertible Note into ordinary shares of the Company at any time from the date of its issuance 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). The Convertible Note will mature on 31 July 2007. Interest on the Convertible Note is accrued from the date of issuance on a day-to-day basis at a rate of 3% per annum and is payable annually in arrears. On 29 July 2005, HK\$20,325,000 of the Convertible Note was converted into 271,000,000 shares of the Company at a conversion price of HK\$0.075 per share. Accordingly, at the balance sheet date, HK\$49,675,000 of the Convertible Note remained outstanding. During the year, interest expense on the Convertible Note paid or payable to Timmex amounted to HK\$1,839,000 (2004: HK\$3,776,000).

## REPORT OF THE DIRECTORS

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available and to the best knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 43 to the financial statements.

### AUDITORS

Ernst & Young will retire at the conclusion of the annual general meeting. A resolution for the reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

**Yuen Wing Shing**

*Managing Director*

Hong Kong, 7 April 2006