

REPORT OF THE DIRECTORS

The directors present herewith their report and 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 are set out in note 14 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 Company and the Group at that date are set out in the financial statements on pages 19 to 81.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets, liabilities and minority interests of the Group for the last five-financial years. The information has been extracted from the published audited financial statements of the Company, after appropriate adjustments and reclassifications. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	1,319,655	701,466	334,252	101,890	110,891
Operating profit	193,533	134,152	104,688	63,334	73,469
Finance costs	(27,786)	(13,070)	(24,340)	(27,012)	(44,910)
Share of profits and losses of associates	—	—	(621)	1,696	4,703
Negative goodwill on acquisition of interest in an associate recognised as income	—	—	633	13,290	5,715
Profit before income tax	165,747	121,082	80,360	51,308	38,977
Income tax	(18,082)	(7,537)	1,521	(7,401)	(4,940)
Profit for the year	147,665	113,545	81,881	43,907	34,037
Attributable to					
Equity holders of the Company	126,597	81,262	54,730	30,648	20,419
Minority interests	21,068	32,283	27,151	13,259	13,618
	147,665	113,545	81,881	43,907	34,037

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Total assets	3,332,662	2,981,132	2,781,803	2,200,944	1,944,340
Total liabilities	(1,400,830)	(1,312,713)	(1,499,922)	(1,257,121)	(1,100,907)
Minority interests	(697,523)	(667,104)	(564,648)	(288,662)	(294,887)
	1,234,309	1,001,315	717,233	655,161	548,546

Total assets as at 31 December 2004 have been restated as a result of the prior year adjustments in respect of the adoption of Hong Kong Accounting Standard 17 "Leases" issued by the Hong Kong Institute of Certified Public Accountants. Figures for the years 2003, 2002 and 2001 have not been restated as it is not practicable to restate earlier years for comparison purposes.

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 15 and 16 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 82 to 84.

PROPERTIES HELD FOR SALE

Details of the Group's properties held for sale are set out in note 21 to the financial statements. Further details of the Group's properties held for sale are set out on page 82.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company during the year are set out in notes 31 and 32 to the financial statements.

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.

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.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK\$858,020.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 87% of the total sales for the year and sales to the largest customer included therein amounted to 63%. Purchases from the Group's five largest suppliers accounted for 88% of the total purchases for the year and purchases from the largest supplier included therein amounted to 23%.

None of the directors of the Company or any of their associates or 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 suppliers.

DIRECTORS

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

Executive directors

Mr. Lau Chi Yung, Kenneth *(Chairman)*
 Mr. Lau Michael Kei Chi *(Vice-Chairman)*

Independent non-executive directors

Mr. Choy Tak Ho
 Mr. Lee Siu Man, Ervin
 Mr. Wong Yim Sum

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

In accordance with the Company's bye-laws, Mr. Lau Michael Kei Chi, Mr. Choy Tak Ho, Mr. Lee Siu Man, Ervin and Mr. Wong Yim Sum will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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 6 to 7 of the annual report.

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

Apart from those transactions disclosed in note 38 to the financial statements, no director had a material interest, either directly or indirectly, in any material contract of significance to the business of the Group to which the Company, or any of its holding companies or subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2005, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (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 of the Listing Rules (the "Model Code"), were as follows:

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

Long position in ordinary shares of the Company

Name of director	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Mr. Lau Chi Yung, Kenneth	Corporate	<u>2,685,515,712</u>	<u>64.24</u>

The above shares are ultimately controlled by Power Resources Holdings Limited as the trustee of the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr. Lau Chi Yung, Kenneth and his family.

Long position in shares and underlying shares of associated corporation

Name of director	Name of associated corporation	Relationship with the Company	Shares/Equity derivatives	Number of shares/equity derivatives held	Capacity and nature of interest	Percentage of associated corporation's issued share capital
Mr. Lau Chi Yung, Kenneth	Oriental Explorer Holdings Limited	Company's subsidiary	Ordinary shares	1,020,268,999	Corporate	56.68
			Share options	19,500,000	Directly beneficially owned	N/A

The interest of Mr. Lau Chi Yung, Kenneth in the shares of Oriental Explorer Holdings Limited are ultimately controlled by Power Resources Holdings Limited as the trustee of the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr. Lau Chi Yung, Kenneth and his family.

In addition to the above, a director has non-beneficial personal equity 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 had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares of the Company and its associated corporations" 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 holding companies or subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

	Notes	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Power Resources Holdings Limited	(a)	Through a controlled corporation	2,685,515,712	64.24
Lucky Speculator Limited	(a)	Directly beneficially owned	2,195,424,000	52.52
Desert Prince Limited	(a)	Directly beneficially owned	490,091,712	11.72
Choi Koon Shum Jonathan	(b)	Through a controlled corporation	281,665,344	6.74
Lam William Ka Chung	(c)	Through a controlled corporation	281,665,344	6.74
Lam Wong Yuk Sin Mary	(c)	Through a controlled corporation	281,665,344	6.74
Kingsway International Holdings Limited	(d)	Through a controlled corporation	281,665,344	6.74
Innovation Assets Limited	(d)	Through a controlled corporation	281,665,344	6.74
World Developments Limited	(d)	Through a controlled corporation	281,665,344	6.74
SW Kingsway Capital Holdings Limited	(d)	Through a controlled corporation	281,665,344	6.74
Kingsway China Holdings Limited	(d)	Through a controlled corporation	281,665,344	6.74
Festival Development Limited	(d)	Through a controlled corporation	281,665,344	6.74
Opel Dragon Investments Limited	(d)	Directly beneficially owned	281,665,344	6.74

Notes:

- Power Resources Holdings Limited was deemed to have a beneficial interest in 2,685,575,712 ordinary shares of the Company by virtue of its indirect interests through Lucky Speculator Limited and Desert Prince Limited, the wholly-owned subsidiaries, which held shares in the Company.
- Mr. Choi Koon Shum Jonathan, who beneficially own or control approximately 48.18% of and in the issued share capital of Kingsway International Holdings Limited ("Kingsway International") and is deemed (by virtue of the SFO) to be interested in shares in, or debenture of, the subsidiaries of Kingsway International.
- Mrs. Lam Wong Yuk Sin Mary and her spouse, Mr. Lam William Ka Chung, who together beneficially own or control approximately 40% of and in the issued share capital of Kingsway International and are deemed (by virtue of the SFO) to be interested in the shares in, or debenture of, the subsidiaries of Kingsway International.
- Kingsway International was deemed to have beneficial interests in 281,665,344 ordinary shares of the Company by virtue of its direct interests through Innovation Assets Limited, World Developments Limited, SW Kingsway Capital Holdings Limited, Kingsway China Holdings Limited and Festival Development Limited and Opal Dragon Investments Limited ("Opal"). Opal is directly held shares in the Company.

Save as disclosed above, as at 31 December 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares of the Company and its associated corporations" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of the connected transactions are set out in note 38 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the 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.

AUDITORS

Messrs. HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Messrs. Ernst & Young with effect from 31 December 2004. Save as aforesaid, there had been no other changes of the Company's auditors in the past three financial years.

A resolution for the reappointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Lau Chi Yung, Kenneth

Chairman

Hong Kong

19 April 2006