

Report of the Directors

The Board of Directors submit their report together with the audited financial statements for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in notes 20, 21 and 22 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS

The results for the year are set out in the consolidated income statement on page 20.

DIVIDEND

The Board of Directors recommends the payment of a final dividend of HK\$0.015 per ordinary share, totalling HK\$17,730,447 (2004: HK\$11,736,917).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 36 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 35 to the financial statements.

SUBSEQUENT EVENTS

Details of the subsequent events of the Company are set out in note 43 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2005, calculated pursuant to section 79B of the Hong Kong Companies Ordinance, amounted to HK\$47,214,329 (2004: HK\$5,133,748).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2005.

REPORT OF THE DIRECTORS

SHARE OPTION

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the "Scheme") to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares in the Company.

The maximum number of shares subject to the Scheme and any other schemes of the Company (including without limitation the 1994 Share Option Scheme) does not in aggregate exceed 30 percent of the shares in issue of the Company from time to time. The total number of shares may be issued upon exercise of all options to be granted under the Scheme must not exceed 113,132,370 shares, being 10 percent of shares in issue as at the date of approval of the Scheme by the Shareholders in the Annual General Meeting. The total number of options available for issue under the Scheme as at 31st December 2005 is 54,860,370, representing approximately 4.64% of shares in issue of the Company as of that date.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company for the time being.

The consideration for the grant of options is HK\$1.00. The Scheme participant is entitled to subscribe for shares during such period as may be determined by the Directors (which shall be less than 10 years from the date of the grant of the relevant option and commences six months after the date of grant) at the price to be determined by the Board of Directors but not less than the highest of the nominal value of the shares, the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted and the official closing price of the shares on the Stock Exchange on the date of grant.

REPORT OF THE DIRECTORS

Details of share options remain outstanding as at 31st December 2005 are as follows:–

	Options held at 1 January 2005	Options granted during year	Options exercised during year	Options lapsed during year	Options held at 31 December 2005	Exercise price HK\$	Date of grant	Exercise period
Directors:–								
Lao Yuan Yi	7,338,100	–	(7,338,100) ^b	–	–	0.342	26/09/1995	26/03/1995-07/10/2005
	5,503,900	–	–	–	5,503,900	0.318	11/07/1996	11/01/1997-15/07/2006
	10,000,000	–	–	–	10,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
	–	22,842,000 ^a	–	–	22,842,000	0.564	30/11/2005	30/05/2006-11/12/2015
Xin Shulin, Steve	2,534,980	–	–	(2,534,980)	–	0.453	26/01/1995	26/07/1995-09/02/2005
	838,640	–	–	–	838,640	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	–	–	–	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	4,464,000	–	–	–	4,464,000	0.283	08/07/1998	08/01/1999-15/07/2008
	–	11,810,000 ^a	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015
Yeung Wai Kin	2,401,560	–	–	(2,401,560)	–	0.453	26/01/1995	26/07/1995-09/02/2005
	1,494,304	–	–	–	1,494,304	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	–	–	–	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	6,980,000	–	–	–	6,980,000	0.283	08/07/1998	08/01/1999-15/07/2008
	–	11,810,000 ^a	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015
Hu Yi Ming	1,000,000	–	–	–	1,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
	2,300,000	–	(1,000,000) ^c	–	1,300,000	0.283	08/07/1998	08/01/1999-15/07/2008
Employees								
	1,952	–	–	(1,952)	–	0.453	26/01/1995	26/07/1995-09/02/2005
	4,002,600	–	–	–	4,002,600	0.318	11/07/1996	11/01/1997-15/07/2006
	950,000	–	–	–	950,000	0.816	01/11/1997	01/05/1998-12/11/2007
	1,804,000	–	–	–	1,804,000	0.283	08/07/1998	08/01/1999-15/07/2008
	–	11,810,000 ^a	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015
	<u>56,614,036</u>	<u>58,272,000</u>	<u>(8,338,100)</u>	<u>(4,938,492)</u>	<u>101,609,444</u>			

REPORT OF THE DIRECTORS

- a. At the date before the options were granted, 29th November 2005, the market value per share was HK\$0.56. The value of the options granted to the respective parties is as follows:-

	<i>HK\$'000</i>
Directors:	
Mr. Lao Yuan Yi	5,707
Mr. Xin Shulin, Steve	2,951
Mr. Yeung Wai Kin	2,951
Continuous contract employees	2,951
	<hr/>
	14,560

The value of the options granted during the year is HK\$14,560,366, based on the Black-Scholes valuation model. The significant inputs into the model were share price of HK\$0.56 at the grant date 30th November, exercise price shown above, expected life of options of 9.5 years, expected dividend paid out rate of 1.79% and annual risk-free rate of 4.46%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last one year. The Black-Scholes model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with difference variables of certain subjective assumption. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

- b. Exercise date was 7th October 2005. At that date before the options were exercised, the market value per share was HK\$0.59.
- c. Exercise date was 16th December 2005. At that date before the options were exercised, the market value per share was HK\$0.55.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

- Mr. LAO Yuan Yi
 Mr. XIN Shulin, Steve
 Mr. YEUNG Wai Kin
 Mr. HU Yi Ming
- * Mr. KWOK Lam Kwong, Larry, J.P.
 ** Prof. WOO Chia Wei
 ** Mr. LIU Ji
 ** Mr. YU Qi Hao (appointed on 17th March 2005)
- * *Mr. Kwok Lam Kwong, Larry, J. P. has been re-designated from being independent non-executive director to non-executive director of the Company with effect from 17th March 2005.*
- ** *Prof. Woo Chia Wei, Mr. Liu Ji and Mr. Yu Qi Hao are independent non-executive directors and were appointed for a term of two years.*

Mr. Hu Yi Ming, Mr. Kwok Lam Kwong, Larry, J.P. and Prof. Woo Chia Wei retire in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company which cannot be terminated by the Company within one year without payment of compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors of the Company and senior management of the Group are set out as follows (with age in brackets):-

Mr. Lao Yuan-Yi (60). Chairman, Joined the Company in 1993. Currently Chairman of China Assets (Holdings) Ltd, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Previously senior policy researcher at China's National Research Centre for Science & Technology and Social Development, senior staff officer with the PRC State Science & Technology Commission & the PRC Railway Ministry. Mr. Lao graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

Mr. Xin Shu-Lin, Steve (52). Appointed as Director of the Company in 1998. He joined the Company in 1994 as Executive Vice President in charge of direct investment. Previously Mr. Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992.

Mr. Yeung Wai-Kin (44). Appointed as Director of the Company in 1998. He is also Chief Financial Officer and Company Secretary of the Company. Mr. Yeung joined the Company in 1993 and has over 21 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited (the Company's associated company) and RBI Holdings Limited, which are listed in The Stock Exchange of Hong Kong Limited. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

Mr. Hu Yi-Ming (43). Appointed as Director of the Company in 1998. He joined the Group in 1996 as Managing Director of its Assets Management Division. Prior to joining the Group, Mr. Hu was Vice President - Foreign Exchange of Banque Paribas, Hong Kong Branch. Mr. Hu graduated with a Bachelor of Economics degree from the Shanghai University of Finance and Economics. After his graduation, he gained extensive experience in money market dealing from several reputable corporations in PRC, USA and Singapore.

Professor Woo Chia-Wei (68). Appointed as Independent Non-Executive Director in 1993. Currently Senior Advisor to the Shui On Holdings Limited. President Emeritus of the Hong Kong University of Science and Technology. Previously President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of several companies including Shanghai Industrial Holdings Limited and Legend Holdings Limited. He serves on the Commission on Strategic Development and Council of Advisors on Innovation and Technology of HKSAR, and the Chinese People's Political Consultative Conference.

REPORT OF THE DIRECTORS

Mr. Kwok Lam-Kwong, Larry, J.P. (50). Appointed as Independent Non-Executive Director in 1994 and has been re-designated to Non-Executive Director of the Company with effect from 17th March 2005. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Singapore. He is also qualified as an accountant in Hong Kong and Australia. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He is currently the Vice-Chairman of the Consumer Council, a member of the Hospital Governing Committee of the Princess Margaret Hospital/Kwai Chung Hospital, a member of the Traffic Accident Victims Assistance Advisory Committee and a member of the Trade and Industry Advisory Board in Hong Kong. He is also a member of the Political Consultative Committee of Guangxi in the People's Republic of China.

Mr. Liu Ji (70). Appointed as Independent Non-Executive Director on 11th March 2004. Mr. Liu is the Executive President of China Europe International Business School in Shanghai. He holds the posts of Deputy Chairman, Research Fellow and Member of the Academic Board, The Chinese Academy of Social Sciences since 1993. Mr. Liu graduated from the Department of Power Mechanical Engineering, Qinghua University, Beijing.

Mr. Yu Qi-Hao (59). Appointed as Independent Non-Executive Director on 17th March 2005. Mr. Yu is a certified public accountant, PRC. He graduated from Shanghai University of Finance and Economics. He is an independent advisor of Deloitte Touche Tohmatsu CPA Ltd in Shanghai, and an independent non-executive director and a member of the audit committee of COL Capital Limited (Stock Code 383). From 1981 to 1991, Mr. Yu worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as the assistant president of Shanghai Industrial Investment (Holdings) Company Limited. Mr. Yu also worked as an executive director of Shenyin Wanguo (H.K.) Limited (Stock Code 218) from 1995 to 1997 and a non-executive director from 1997 to 1998.

Mr. Wang Jun-Yan (35). Joined the Company in October 1997, is the Managing Director of First Shanghai Financial Holding Limited, an immediate holding company of the financial service division of the Group. He is also director of China Assets (Holdings) Limited, the Company's associated company which is listed in The Stock Exchange of Hong Kong Limited. Mr. Wang has more than 12 years experience in investment banking and securities industry. Mr. Wang holds a bachelor's degree with a major in International Trade from the Zhongshan University and a master's degree in Finance from the University of Hong Kong. He has also studied in a Ph.D. program of Finance in the City University of New York.

Mr. Mo Siu-Lun, Henry (43). Joined the Company in January 2000 as Chief Information Officer of the Group. Mr. Mo has over 23 years of managerial and technical experience in the information technology, manufacturing and marketing communication sector. Prior to joining the Group, he had held various management positions with major public listed companies. He obtained his Postgraduate Diploma in Engineering Management from City University of Hong Kong, a Master's Degree in Manufacturing Systems Engineering from Warwick University of the United Kingdom and a Master's Degree in Electronic Business from City University of Hong Kong.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or 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.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st December 2005, the interests of each director and chief executive in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of SFO or as notified to the Company were as follows:-

(a) Ordinary shares of HK\$0.2 each in the Company:

Name of Directors		Number of shares and underlying shares held			Total	% of the issued share capital of the Company
		Personal interests	Family interests	Corporate interests		
Mr. Lao Yuan Yi	Long position	90,216,000	–	72,952,000	163,168,000	13.80%
Mr. Xin Shulin, Steve	Long position	19,612,640	–	–	19,612,640	1.66%
Mr. Yeung Wai Kin	Long position	22,784,304	–	–	22,784,304	1.93%
Mr. Hu Yi Ming	Long position	3,300,000	–	–	3,300,000	0.28%
Prof. Woo Chia Wei	Long position	–	72,000	–	72,000	0.006%

No directors and chief executives has any interest of short positions in shares or underlying shares of the Company.

(b) Options in respect of shares in an associated corporation:

Name of Directors	Associated corporation	Number of options held		Total	% of the issued share capital of the associated corporation
		Personal interests			
Mr. Lao Yuan Yi	China Assets (Holdings) Ltd	725,000	Long position	725,000	0.98%
Mr. Yeung Wai Kin	China Assets (Holdings) Ltd	700,000	Long position	700,000	0.94%

The above share options were granted under the share option scheme of China Assets (Holdings) Limited adopted on 19th May 2004.

Saved as disclosed above, at no time during the year, the directors and chief executives had any interest in shares, underlying shares and debentures of the Company and its associated corporation required to be disclosed pursuant to the SFO.

 REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2005, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Ordinary shares of HK\$0.2 each in the Company:	Corporate interests	Percentage
China Assets (Holdings) Limited ("China Assets") Long position	248,249,300	21.00%

China Assets is a Hong Kong listed company, which is also an associated company of the Group. Apart from the above, so far as the Directors are aware, there are no parties which were, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital of the Company as at 31st December 2005.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are both less than 30% for 2005 and 2004.

CONNECTED TRANSACTION

The related party transactions disclosed in note 42(b) to the financial statements constituted connected transactions under the Listing Rules.

China Assets Investment Management Limited ("CAIML") was a subsidiary of the Company up to 30th December 2005. CAIML entered into a management agreement (the "Management Agreement") with China Assets on 28th March 1991 (with amendments made on 8th April 1992 and 11th October 2004) whereby CAIML was appointed to act as investment manager of China Assets and agreed to provide management services to China Assets. The Management Agreement will continue until 31st December 2006 and shall be renewed for further terms of 2 years each provided that the requirements of the Listing Rules are complied with before renewal. The Management Agreement may be terminated by serving 6 months written notice on the other party.

Under the Management Agreement, CAIML is entitled to receive from China Assets a management fee at the rates of (i) 2.75% per annum on the aggregate cost to China Assets of the investment (less any provisions in respect thereof) held by it from time to time; and (ii) 1% per annum on the value of the uninvested net assets of China Assets. In addition, CAIML is entitled to performance bonus based on a specified formula on the return on net assets and net capital gains of China Assets. The Management Agreement constitutes a continuing connected transaction of the Company. For the year ended 31st December 2005, the total annual amount paid by China Assets to CAIML under the Management Agreement was US\$1,264,301 (approximately HK\$9,829,000).

REPORT OF THE DIRECTORS

During the year, the Company is holding approximately 33.82% of the issued share capital of China Assets. China Assets is a substantial shareholder of the Company holding approximately 21% of the issued share capital of the Company. Mr. Lao Yuan Yi, a Director of the Company and CAMIL, Mr. Yeung Wai Kin, a Director of the Company and CAMIL and Mr. Wang Jun Yan, a Director of CAMIL are interested in the Management Agreement to the extent that all of them are Directors of China Assets.

On 30th December 2005, the Company disposed part of its shareholding in CAIML and as a result, CAIML ceased to be a subsidiary of the Group. Accordingly, the above related party transactions in respect of the Management Agreement discontinued to constitute continuing connected transactions from 31st December 2005.

As a result of the annual review of the Management Agreement as a continuing connected transaction from 1st January 2005 to 30th December 2005, the directors of the Company (including the independent non-executive directors) confirm that the Management Agreement has been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:–

	2005	Restated 2004	Restated 2003	Restated 2002	Restated 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	1,924,210	1,609,247	1,730,671	1,226,011	1,198,900
Total liabilities (net of minority interests)	510,750	220,756	417,516	43,687	82,061
Total net assets	1,413,460	1,388,491	1,313,155	1,182,324	1,116,839
Sales	1,254,728	587,845	281,351	171,614	298,332
Profit attributable to shareholders	76,320	80,955	93,787	49,979	65,604
Earnings per share					
– basic	6.49 cents	6.90 cents	7.99 cents	4.41 cents	5.84 cents
– diluted	6.40 cents	6.78 cents	7.88 cents	4.36 cents	5.77 cents

AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998. The Audit Committee comprises the non-executive Director, Mr. Kwok Lam Kwong, Larry, J.P. and the three independent non-executive Directors, Prof. Woo Chia Wei, Mr. Liu Ji and Mr. Yu Qi Hao. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. Three meetings were held during the current financial year.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LAO Yuan Yi

Chairman

Hong Kong, 21st April 2006