

DIRECTORS' REPORT

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

Principal Activities

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 37 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 17.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 30 to the financial statements.

Contributed Surplus

The Group's contributed surplus represents the special reserve arising upon the Group reorganisation in March 1997.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Property, Plant and Equipment

During the year, the Group spent approximately HK\$345,000 in the acquisition of property, plant and equipment which mainly comprised leasehold improvements and furniture, fixtures and equipment. The investment property held by the Group was revalued at 31 December 2005, resulting in a net decrease in fair value of HK\$31,000,000 which has been charged directly to consolidated income statement.

Details of these and other movements of property, plant and equipment and investment properties of the Group during the year are set out in notes 15 and 16 respectively to the consolidated financial statements.

Directors

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

Executive directors:

Cai Yuan (<i>Chairman</i>)	(appointed on 2 August 2005)
Luk Kin Peter Joseph (<i>Chief Executive Officer</i>)	(appointed on 2 August 2005)
Fu Weimin	(resigned on 24 May 2005)
Zhao Linye	(resigned on 24 May 2005)
Qi Xianchao	(resigned on 24 November 2005)
Zhou Yucheng	(resigned on 25 November 2005)

DIRECTORS' REPORT (Continued)

Directors (continued)

Independent non-executive directors:

Tang Tin Sek	
Lee Kwan Hung	(appointed on 31 May 2005)
Poon Chiu Kwok	(appointed on 24 February 2006)
Julia Frances Charlton-Stevens	(resigned on 28 February 2005)
Wang Yiming	(resigned on 25 November 2005)

In accordance with Bye-law 86(2) of the Company's Bye-laws, Messrs. Cai Yuan, Luk Kin Peter Joseph, Lee Kwan Hung and Poon Chiu Kwok, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Shares and Underlying Shares

At 31 December 2005, the interests of the directors in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (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 (the "Model Code"), were as follows:

Interest in shares of the Company (long position)

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Cai Yuan	Beneficial owner	500,000,000	20.29%
Luk Kin Peter Joseph	Beneficial owner	346,584,000	14.06%
Tang Tin Sek	Beneficial owner	300,000	0.01%

Other than as disclosed above, and those disclosed in the paragraph heading "Share Option Schemes", none of the directors and their associates had any interests or short positions in any shares, underlying shares of the Company or any of its associated corporations as at 31 December 2005.

Arrangements to Purchase Shares or Debentures

Other than as disclosed in "Share Option Schemes" below, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Discloseable Interests and Short Positions of Shareholders under The SFO

As at 31 December 2005, the register required to be kept under Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of shareholder	Capacity	Number of shares	Approximate percentage of issued share capital
Greater Increase Investments Limited ("Greater Increase") (Note a)	Corporate interest	500,000,000	20.29%
Equity Valley Investments Limited ("Equity Valley") (Note b)	Corporate interest	346,584,000	14.06%
China Worldbest Group (Hong Kong) Company Limited ("China Worldbest HK") (Note c)	Corporate interest	140,000,000	5.68%
China Worldbest Group Company Limited ("China Worldbest") (Note c)	Interest in controlled corporation	140,000,000	5.68%

Notes:

- (a) Mr. Cai Yuan, a director of the Company, is the ultimate beneficial owner of Greater Increase. Under Part XV of the SFO, Mr. Cai is deemed to have interest in the shares of the Company held by Greater Increase.
- (b) Mr. Luk Kin Peter Joseph, a director of the Company, is the ultimate beneficial owner of Equity Valley. Under Part XV of the SFO, Mr. Luk is deemed to have interest in the shares of the Company held by Equity Valley.
- (c) China Worldbest HK is wholly and beneficially owned by China Worldbest. Under Part XV of the SFO, China Worldbest is deemed to have interest in the shares of the Company held by China Worldbest HK.

Save as disclosed above, the register required to be kept under Section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2005.

Share Option Schemes

Pursuant to ordinary resolutions of the shareholders of the Company passed on 11 March 1997 and 26 June 2002, the Company adopted an old share option scheme (the "Old Share Option Scheme") and a new share option scheme (the "New Share Option Scheme") respectively. The Old Share Option Scheme was terminated on 26 June 2002 such that no further options shall be offered under the Old Share Option Scheme but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and, in all other respects, its provisions shall remain in full force and effect.

Particulars of each share option scheme are set out in note 32 to the consolidated financial statements. Details of movements in the share options held by directors under the New Share Option Scheme for the year ended 31 December 2005 are as follows:

DIRECTORS' REPORT (Continued)

Share Option Schemes (continued)

New Share Option Scheme

The details of share options granted on 20 December 2005 to the directors of the Company under the New Share Option Scheme which were exercisable from 3 January 2006 to 2 January 2009 are as follows:

<i>Director</i>	Exercise price per share <i>HK\$</i>	Number of share options		
		Outstanding as at 1.1.2005	Granted during the year	Outstanding as at 31.12.2005
Cai Yuen	0.16	–	8,650,000	8,650,000
Luk Kin Peter Joseph	0.16	–	8,650,000	8,650,000

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

Purchase, Sale or Redemption of the Company's Shares

The Company has not redeemed any of its securities during the year ended 31 December 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 63% of the Group's total sales while the sales attributable to the Group's largest customer were approximately 39% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 73% of the Group's total purchases while the purchases attributable to the Group's largest supplier were approximately 42% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the five largest customers or suppliers of the Group.

Competing Interest

None of the directors of the Company or their respective associates had any interest in a business which competes with or may compete with the business of the Group.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings if new shares are issued.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2005 and as at the date of this report.

Appointment of Independent Non-executive Directors

The Company has received, from each of the independent non-executive director, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers that all of the independent non-executive directors are independent.

Emolument Policy

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are based on the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 32 to the consolidated financial statements.

Auditors

Except for the financial year ended 31 December 2003, in which Messrs. PricewaterhouseCoopers acted as auditors of the Company, Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cai Yuan

Chairman

Hong Kong, 21 April 2006