

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The Company continued to be an investment holding company. The principal activities of its subsidiaries continued to be property investment, property trading and investment holding. Details of these activities are set out in note 35 to the financial statements.

Over 50% of the Group's revenue for the year was derived from its property rental business in Hong Kong. An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 27.

The directors recommend the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2005 which makes a total distribution of approximately HK\$20 million for the year ended 31 December 2005 (2004: HK\$16 million). Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 13 June 2006 to shareholders registered on 8 June 2006.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held by the Group are set out on page 95.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in notes 17 and 35 to the financial statements.

ASSOCIATES

Particulars of the Group's interests in its principal associates are set out in note 18 to the financial statements.

REPORT OF THE DIRECTORS

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 29 and 30 and note 27 to the financial statements respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserve available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$1,572 million (2004: HK\$1,371 million), of which HK\$20 million (2004: HK\$16 million) has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$95.7 million (2004: HK\$94.5 million) may be distributed in the form of fully paid bonus shares.

BANK LOANS

The Group's bank loans, which comprise term loans and revolving credit facilities, are secured by certain properties held by the Group. An analysis of these borrowings is set out in note 24 to the financial statements. No interest was capitalised during the year.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of assets and liabilities of the Group for the last five financial years is set out on page 96. This summary does not form part of the audited financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and revenue for the year attributable to the Group's major suppliers and customers are as follows:

	2005	2004
	%	%
Purchases		
– the largest supplier	18	19
– five largest suppliers combined	50	55
Revenue		
– the largest customer	15	35
– five largest customers combined	48	76

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the suppliers or customers noted above.

REPORT OF THE DIRECTORS**DIRECTORS**

The directors serving for the year and up to the date of this report are listed on page 2 of the annual report.

Mr. Lee Ka Sze, Carmelo, non-executive director, and Messrs. Wong Wai Kwong, David, Wong Yat Fai and Ng Kwok Fu who are independent non-executive directors were all appointed for a term expiring on the annual general meeting in 2006. Accordingly, all of them cease to hold office from close of the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Bye-law 87(1) of the Company's bye-laws provides that: (i) at each annual general meeting one third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that the chairman of the board shall not whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year; and (ii) every director (including those appointed for a specific term but excluding the chairman of the board) shall be subject to retirement by rotation at least once every three years. In accordance therewith, Messrs. Wong Chi Keung and Yuen Wing Shing retire from the board by rotation this year and, being eligible, offer themselves for re-election. Taking into account that Messrs. Lee Ka Sze, Carmelo, Wong Wai Kwong, David, Wong Yat Fai and Ng Kwok Fu also retire at the forthcoming annual general meeting as mentioned above, the requirements under this bye-law are fully satisfied.

As referred to in the Corporate Governance Report on pages 9 and 10, the board proposes to amend the bye-laws. Subject to shareholders' approval at the forthcoming annual general meeting, bye-law 87 shall provide, in addition to the manner of retirement by rotation of directors prescribed therein, that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years; the director holding office as chairman shall also be taken into account in determining the number of directors to retire each year.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence and considers all of them to be independent.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of directors and the five highest paid individuals are set out in notes 8 and 9 to the financial statements respectively.

REPORT OF THE DIRECTORS**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

The register kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") shows, as at 31 December 2005, the following interests of the directors in the shares and underlying shares of the Company or an associated corporation (within the meaning of Part XV of the SFO):

(a) Interests in the Company

Name	Nature of interest	No. of shares	Approximate % of shareholding
Cheung Chung Kiu	Corporate	273,000,000 (Note 1)	34.14%
Wong Chi Keung	Personal	2,000,000	0.25%
Ng Kwok Fu	Personal/Family	90,000 (Note 2)	0.01%

(b) Interests in The Cross-Harbour (Holdings) Limited (associated corporation)**(i) Interests in shares**

Name	Nature of interest	No. of shares	Approximate % of shareholding
Cheung Chung Kiu	Corporate	90,022,373 (Note 3)	29.92%

(ii) Interests in options

Name	No. of underlying shares	Approximate % of shareholding
Cheung Chung Kiu	52,647,059 (Note 4)	17.50%

Notes:

- (1) Mr. Cheung Chung Kiu ("Mr. Cheung") was deemed to be interested in 273,000,000 shares in the Company by virtue of his indirect shareholding interest in Funrise Limited ("Funrise") which owned these shares. Funrise was a wholly owned subsidiary of Yugang International (B.V.I.) Limited ("Yugang BVI") which was in turn a wholly owned subsidiary of Yugang International Limited ("Yugang"). Mr. Cheung and Chongqing Industrial Limited ("Chongqing Industrial") owned 0.63% and 37.79% of the issued share capital of Yugang respectively. Chongqing Industrial was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited (a company owned by Mr. Cheung and his associates), as to 30% by Peking Palace Limited ("Peking Palace") and as to 5% by Miraculous Services Limited ("Miraculous Services"). Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.

REPORT OF THE DIRECTORS**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(continued)***(b) Interests in The Cross-Harbour (Holdings) Limited (associated corporation)** *(continued)*

- (2) Of these 90,000 shares, 50,000 shares were held by Mr. Ng Kwok Fu in person and 40,000 shares were held by his wife.
- (3) Honway Holdings Limited ("Honway", an indirect wholly owned subsidiary of the Company) held 90,022,373 shares in The Cross-Harbour (Holdings) Limited ("Cross-Harbour"). Of these 90,022,373 shares, 20,630,015 shares were acquired by Honway on conversion of a convertible note (the then outstanding principal amount being HK\$80,457,060) at a pre-determined conversion price of HK\$3.90 per share prior to its maturity. Mr. Cheung was deemed to be interested in these shares held by Honway by virtue of his deemed interest in the shares of the Company as described in note (1) above.
- (4) The parcel of 52,647,059 underlying shares represents the maximum number of shares issuable on exercise of the remainder of the option granted to Honway pursuant to the share option agreement dated 9 May 2003 made between Cross-Harbour and Honway. As described in note (3) above, Mr. Cheung was deemed to be interested in these underlying shares by virtue of his deemed interest in Honway.

All the interests disclosed above represent long positions in shares and underlying shares of the Company or Cross-Harbour.

Save as disclosed herein, as at 31 December 2005, there was no interest recorded in the register kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Code for Securities Transactions by Directors adopted by the Company on 1 January 2005.

SHARE OPTION SCHEMES

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") announced its amendments to the requirements for share option schemes under Chapter 17 of the Main Board Listing Rules (the "Listing Rules"). The rule amendments came into effect on 1 September 2001 and as from this date onwards, all schemes must comply with the provisions of Chapter 17. Options that had been granted before 1 September 2001 are, however, not subject to the new rules. Accordingly, each existing scheme which does not comply with the new rules should be amended or replaced by a new scheme.

The Company had, prior to 1 September 2001, adopted a scheme which then expired on 21 December 2003 (the "Old Scheme"). Pursuant to the Old Scheme, options had been granted to eligible participants to subscribe for shares in the Company, each for a consideration of HK\$10, and a total of 2,400,000 shares represented options which remained outstanding at the beginning of the year. All of the options then outstanding were exercised in full on 24 February 2005 (the weighted average closing price of the shares taken up thereunder immediately before 24 February 2005 being HK\$1.19). Accordingly, no option under the Old Scheme remained outstanding at the year end. Particulars of these outstanding options at the beginning of the year are set out in the table below.

REPORT OF THE DIRECTORS**SHARE OPTION SCHEMES** *(continued)*

Type of participant	No. of outstanding options at the beginning of the year	Date of grant	Vesting period	Exercise period	Exercise price per share
Director					
Wong Chi Keung	2,000,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860
Other employees	100,000	16 Jul 1996	16 Jul 1996 to 16 Jul 1999	16 Jan 1997 to 15 Jul 2006	HK\$0.9488
	300,000	3 Apr 2000	3 Apr 2000 to 2 Apr 2004	3 Apr 2000 to 2 Apr 2010	HK\$0.5860

At the special general meeting held on 29 April 2005, the Company adopted a new scheme (the "New Scheme") whose terms are in line with the provisions of Chapter 17. Details of the adoption of the New Scheme are given in the Company's circular dated 13 April 2005 (the "Scheme Circular").

A summary of the New Scheme is set out below.

1. Purpose : To provide the Group with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to, the participants
2. Participants : Any director (or any person proposed to be appointed as such, whether executive or non-executive), officer and employee (whether full-time or part-time) of each member of the Eligible Group (as defined in the Scheme Circular); any business consultant, professional and other advisers (in the areas of legal, technical, financial or corporate managerial) (including any executive, officer and employee of such business consultant, professional and other advisers) to each member of the Eligible Group (or persons proposed to be appointed as such) who has rendered service or will render service to the Group, as absolutely determined by the board
3. Total number of shares available for issue (% of issued share capital as at 7 April 2006) : 79,955,741 shares (10%)

REPORT OF THE DIRECTORS**SHARE OPTION SCHEMES** *(continued)*

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|----|---|---|--|
| 4. | Maximum entitlement of each participant | : | 1% of the total number of shares in issue in any 12-month period |
| 5. | Period within which the shares must be taken up under an option | : | To be determined by the board in its absolute discretion, such period to expire not later than ten years from the date of grant of option |
| 6. | Minimum period for which an option must be held before exercise | : | Nil (except for the achievement of any performance target(s) which may be imposed by the board on the grantee before an option can be exercised) |
| 7. | Amount payable on application or acceptance of the option | : | HK\$1.00 |
| 8. | Basis of determining the exercise price | : | <p>The exercise price shall be a price solely determined by the board, such price being no less than the highest of:</p> <ul style="list-style-type: none"> (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (c) the nominal value of a share |
| 9. | Remaining life | : | Until 28 April 2015 |

Save as disclosed herein, no option lapsed and no option was granted, exercised or cancelled during the year.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Save for the New Scheme noted above, at no time during the year was the Company or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangement whose objects are, or one of whose objects is, to enable the directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

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

Mr. Lee Ka Sze, Carmelo, is a partner in Messrs. Woo, Kwan, Lee & Lo and as such has an interest in the normal remuneration paid by the Company to that firm for the services rendered to the Company in the year.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

The register kept under section 336 of the SFO shows the following interests of the persons, other directors, in the shares of the Company as at 31 December 2005:

Name	No. of shares	Approximate % of shareholding
Palin Holdings Limited	273,000,000 (Note)	34.14%
Chongqing Industrial	273,000,000 (Note)	34.14%
Yugang	273,000,000 (Note)	34.14%
Yugang BVI	273,000,000 (Note)	34.14%
Funrise	273,000,000 (Note)	34.14%
Chan Chun Wai	123,293,201	15.42%
Deutsche Bank Aktiengesellschaft	72,586,000	9.08%
PMA Capital Management Limited	48,712,000	6.09%

Note: Each parcel of the 273,000,000 shares set out in this column represents the same shareholding interest of Funrise, which is duplicated in Mr. Cheung's interest in the Company's shares on page 20 of this report.

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed herein, there was no person known to the directors, who, as at 31 December 2005, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO, other than as disclosed on pages 20 and 21 of this report.

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, the Company maintained throughout the year the prescribed amount of public float under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws, nor is there any restriction against such rights under the laws of Bermuda, which would oblige the Company to offer shares on a pro rata basis to existing shareholders.

REPORT OF THE DIRECTORS

AUDITORS

The financial statements for the year have been audited by Ernst & Young, Certified Public Accountants, who retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Cheung Chung Kiu
Chairman

Hong Kong, 7 April 2006