

# Directors' Report

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

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries and associates are set out in notes 17 and 18 to the financial statements respectively. There were no significant changes in the nature of the Group's principal activities during the year. An analysis of the Group's performance for the year by business is set out in note 6 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 29 to 85.

The Directors do not recommend the payment of a dividend.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 31 to the financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$80,500.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

## SHARE CAPITAL

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

## DISTRIBUTABLE RESERVES

At 31 December 2005, the distributable reserves of the Company available for distribution as dividend amounted to HK\$69,100,000 represented by the contributed surplus of HK\$213,978,000 after compensating the accumulated losses of HK\$144,878,000. Under the Bermuda Companies Act, the contributed surplus shall not be distributed to the shareholders if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium accounts.

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## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 86.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## DIRECTORS

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

*Executive Directors:*

Mr. TSANG Chiu Mo Samuel (*Executive Chairman*)

Ms. CHU Ming Tak Evans Tania

Mr. TSANG Chiu Ching

Mr. WU Binquan (appointed on 1 February 2006)

*Independent Non-executive Directors:*

Mr. YU Yun Kong

Mr. CHEUNG Ka Wai (resigned on 3 January 2005)

Mr. HUI Yan Kit

Mr. HUNG Sui Kwan (appointed on 3 January 2005)

In accordance with Bye-law 87 of the Company's bye-laws, all Directors retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

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## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors, except for Mr. WU Binqun commencing on 1 February 2006, has entered into a service agreement with the Company which runs for an initial term of two years commencing on 16 September 2005 and will be renewable for successive terms of one year until terminated by either party by giving to the other not less than six months prior written notice.

Each of the Independent Non-executive Directors has entered into a service agreement with the Company for a fixed term of one year commencing on 16 September 2005 until terminated by either party by giving to the other not less than one month prior written notice.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or holding companies 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### Executive Directors:

**Mr. TSANG Chiu Mo Samuel**, aged 33, brother of the Company's Executive Director, Mr. TSANG Chiu Ching, was appointed as Executive Chairman in April 2004. He is responsible for the Group's strategic planning, business development and corporate finance portfolio. Mr. Tsang is a director of Barsmark Investments Limited, a substantial shareholder of the Company, and a director of China Sky Investments Limited and China Sky Finance Limited.

Mr. TSANG holds a Master degree in Corporate Finance. Prior to joining the Group, he has gained broad experience working with international firms in building construction, hotel management, financing and strategic investment.

**Ms. CHU Ming Tak Evans Tania**, aged 48, joined the Group in 1999 and was appointed as Executive Director in January 2001. She is responsible for overseeing the Group's financial and investment related activities.

Ms. CHU received her tertiary education in Canada. Prior to joining the Group, she had more than 12 years of experience working in the financial field of various commercial enterprises both in Hong Kong and Canada.

**Mr. TSANG Chiu Ching**, aged 30, brother of the Company's Executive Chairman, Mr. TSANG Chiu Mo Samuel, was appointed as Executive Director in September 1999. He is responsible for the evaluation and implementation of business development strategies, as well as investment activities. Mr. Tsang is also a director of Barsmark Investments Limited, a substantial shareholder of the company and a director of China Sky Investments Limited and China Sky Finance Limited.

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Before joining the Group, Mr. TSANG worked in a finance company responsible for corporate finance functions, direct investments and project financing.

**Mr. WU Binquan**, aged 52, was appointed as an Executive Director of the Company on 1st February 2006. Mr. WU has over 20 years of experience in hotel industry and is responsible for overseeing finance and operation. After joining the Company, Mr. WU is responsible for overseeing finance and operation of hotel related investment. He is currently a director of our associated company engaged in the ownership of a hotel in Macau.

### Independent Non-executive Directors:

**Mr. YU Yun Kong**, aged 39, was appointed as an Independent Non-executive Director in January 2001. Mr. YU is a Certified Public Accountant with over 15 years of experience in public accounting practice. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

**Mr. CHEUNG Ka Wai**, aged 36, was appointed as an Independent Non-executive Director in November 2002. He is currently working as a finance manager in an international corporation which provides financial management services.

**Mr. HUI Yan Kit**, aged 32, was appointed as an Independent Non-executive Director in July 2004. Before joining the Group, Mr. HUI had more than 8 years experience in sales and marketing both in Hong Kong and China. He is currently a sales and marketing manager of an international corporation engaged in plastic material manufacturing and trading.

**Mr. HUNG Sui Kwan**, aged 36, was appointed as an Independent Non-executive Director in January 2005. Mr. HUNG is a fellow member of the Association of Chartered Certified Accountants and a practising member of the Hong Kong Institute of Certified Public Accountants. Before joining the Group, Mr. Hung worked for an international accounting firm for three years and has been a sole proprietor of a local certified public accountant firm since 1997. He is currently the company secretary of Get Nice Holdings Limited, a listed company in Hong Kong.

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### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2005, the interests and short positions of each of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO; or (iii) have to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

#### Long position in shares

Name of Director	Nature of interests	Number of shares held	Approximate percentage of total shareholding
Mr. TSANG Chiu Ching	Beneficial	3,212,000	0.1%
	Corporate	1,146,822,203 (Note)	43.3%
Mr. TSANG Chiu Mo Samuel	Corporate	1,146,822,203 (Note)	43.3%

*Note:* These shares are beneficially owned by Barsmark Investments Limited, the issued share capital of which is indirectly beneficially owned as to one-third by each of Mr. TSANG Chiu Mo Samuel, Mr. TSANG Chiu Ching and Ms. TSANG Chiu Yuen Sylvia. Ms. TSANG Chiu Yuen Sylvia is the sister of Mr. TSANG Chiu Mo Samuel and Mr. TSANG Chiu Ching.

Save as disclosed above, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 & 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

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### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

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

#### Long position in shares

Name	Nature of interests	Number of shares held	Approximate percentage of total shareholding
Barsmark Investments Limited	Beneficial	1,146,822,203	43.3%
China Sky Investments Limited ( <i>Note</i> )	Corporate	1,146,822,203	43.3%
Conba Investments Ltd. ( <i>Note</i> )	Corporate	1,146,822,203	43.3%
Sky Shore Limited ( <i>Note</i> )	Corporate	1,146,822,203	43.3%
Fortune Ocean Limited ( <i>Note</i> )	Corporate	1,146,822,203	43.3%
Ms. TSANG Chiu Yuen Sylvia ( <i>Note</i> )	Corporate	1,146,822,203	43.3%
Szeto Investments Holdings (Amusement) Ltd.	Beneficial	262,500,000	9.9%

*Note:* Barsmark Investments Limited is wholly and beneficially owned by China Sky Investments Limited, the issued share capital of which is beneficially owned as to one-third by each of (i) Conba Investments Ltd. (a company wholly and beneficially owned by Mr. TSANG Chiu Mo Samuel); (ii) Sky Shore Limited (a company wholly and beneficially owned by Ms. TSANG Chiu Yuen Sylvia); and (iii) Fortune Ocean Limited (a company wholly and beneficially owned by Mr. TSANG Chiu Ching). Szeto Investments Holdings (Amusement) Limited is ultimately and beneficially owned by Ms. SZETO Yuk Lin who is the mother of Mr. TSANG Chiu Mo Samuel, Mr. TSANG Chiu Ching and Ms. TSANG Chiu Yuen Sylvia.

Save as disclosed above, no other person other than the Directors or Chief Executives of the Company had interests or short positions in the Shares or underlying shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### 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.

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## MAJOR CUSTOMERS AND SUPPLIERS

The five major customers of the Group were attributable to the money lending business and general merchandise trading business. The five major suppliers of the Group were attributable to travel agency business, general merchandise trading business and health and beauty services. The percentages of the sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

### Sales

– the largest customer	12%
– five largest customers combined	16%

### Purchases

– the largest supplier	59%
– five largest suppliers combined	87%

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

## CONNECTED TRANSACTIONS

On 11 January 2005, the Group and China Sky entered into an agreement to form two companies (the "Two Companies") for the purpose of applying for a gaming intermediary license which is required under the Gaming Intermediaries Regulation of Macau for carrying out Gaming intermediary operation in Macau. The Two Companies have been set up with registered paid up capital of MOP100,000 each. The Group and China Sky own 15% and 85%, respectively, of the paid up capital of each of the Two Companies. China Sky was beneficially interested in 48.9% issued share capital of the Company as at 11 January 2005.

On 27 July 2005, HKM Hotel Limited ("HKM"), a wholly-owned subsidiary of the Company, entered into a conditional agreement (the "Agreement") as purchaser with Century Legend Properties Limited ("CL Properties"), a wholly-owned subsidiary of China Sky, as vendor. Pursuant to the Agreement, HKM agreed to purchase 50% of the issued share capital of Investgiant Limited ("Investgiant") and take the assignment of 50% of all sums due and owing by Investgiant to CL Properties as at completion of the Agreement for an aggregate consideration of HK\$55,707,000. Such acquisition was completed on 25 November 2005. China Sky was beneficially interested in 43.3% issued share capital of the Company as at 25 November 2005.

## CORPORATE GOVERNANCE

The Company has complied throughout the year with the code provisions same as disclosed in the Corporate Governance Report and most of the recommended best practices in the Code on Corporate Governance Practices as set out in the Listing Rules.

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## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were revised and adopted in September 2006.

The Audit Committee provides an important link between the Board of Directors and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Audit Committee comprises three Independent Non-Executive Directors, namely Mr. YU Yun Kong, Mr. HUI Yan Kit and Mr. HUNG Sui Kwan. Two meetings were held during the current financial year. Audit Committee had met with the management of the Company and the auditors to review the final results, considered the significant accounting policies, and discussed with the management of the Group's internal control system. The Group's consolidated financial statements for the year ended 31 December 2005 have been reviewed and approved by the Audit Committee.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. TSANG Chiu Ching and Mr. TSANG Chiu Mo Samuel are the Directors of China Sky Finance Limited ("China Sky Finance"). The provision of personal and commercial loan service of China Sky Finance constitutes a competing business to the Group. Apart from the foregoing, none of the management shareholders or substantial shareholders of the Company or any of their respective associates have engaged in any business that competes or may compete, either directly or indirectly, with the business of the Group, or has any other conflict of interests with the Group during the year.

## SUBSEQUENT EVENTS

Details of significant subsequent events are set out in note 38 to the financial statements.

## PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital are held by the public at all times during the year.

## AUDITORS

Grant Thornton have acted as auditors of the Company for the three years ended 31 December 2005. A resolution will be submitted to the forthcoming annual general meeting to re-appoint them as auditors of the Company.

On behalf of the Board

**CHU Ming Tak Evans Tania**

*Executive Director*

Hong Kong, 18 April 2006