

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and provides corporate management services. The principal activities of the Company's subsidiaries are set out in note 48 to the financial statements.

SEGMENTAL INFORMATION

Details of segmental information are set out in note 8 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers in aggregate accounted for less than 30% of the Group's total purchases for the year.

The five largest customers in aggregate accounted for 41% of the Group's turnover and the largest customer accounted for 21% of the Group's turnover for the year.

None of the directors, their associates or shareholders, who to the knowledge of the directors own more than 5% of the Company's share capital, had any interest in any of the five largest customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 25.

The directors now recommend the payment of a final dividend of HK\$0.006 per share to the shareholders whose names appear on the Register of Members on 29 May 2006, amounting to HK\$23,637,000 and the retention of the remaining profit for the year of HK\$17,566,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of HK\$70,206,000 of which property, plant and equipment of HK\$28,178,000 was acquired through acquisition of subsidiaries. Movements during the year in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

MAJOR PROPERTIES

Particulars of the Group's major properties at 31 December 2005 are set out on page 80.

DIRECTORS' REPORT

ASSOCIATES

Particulars of the Company's associates are set out in note 20 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 38 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 December 2005 were as follows:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Retained profits	133,733	99,202
Contributed surplus	158,331	158,331
	292,064	257,533

Under the Companies Act 1981 of Bermuda (as amended), 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 the liabilities and its issued share capital and share premium accounts.

SHARE OPTIONS

The share option scheme adopted at the special general meeting held on 9 April 1999 (the "Old Scheme") was terminated and a new share option scheme (the "Existing Scheme") was adopted at the special general meeting of the Company held on 29 April 2005. During the year, no share options have been granted or exercised under the Old Scheme and no share options have been granted or exercised under the Existing Scheme since its adoption. As at 31 December 2005, no option was outstanding.

Particulars of the Company's share option scheme are set out in note 40 to the financial statements.

DIRECTORS' REPORT

DIRECTORS

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

Executive directors:

Dr. Lam How Mun Peter
(*Chairman and Managing Director*)
Mr. Cheung Chung Kiu
Mr. Lam Hiu Lo
Mr. Leung Chun Cheong
Mr. Leung Wai Fai
Ms. Poon Ho Yee Agnes

Independent non-executive directors:

Mr. Lam Kin Fung Jeffrey
Mr. Lam Ping Cheung
Mr. Wong Wai Kwong David

In accordance with Bye-law 87 of the Company's Bye-Laws, Mr. Lam Hiu Lo shall retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election at the forthcoming annual general meeting. Messrs. Lam Kin Fung Jeffrey, Lam Ping Cheung and Wong Wai Kwong David, being re-elected as independent non-executive directors at the annual general meeting of the Company held on 29 April 2005, will hold such offices until the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

All other remaining directors continue in office.

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive directors

DR. LAM HOW MUN PETER, aged 58, was appointed Chairman and Managing Director of the Company in June 1998. He is the founder of the Group and is responsible for the strategic development and the overall business development of the Group. Dr. Lam obtained his medical degree at the University of Hong Kong in 1972. He is also a fellow of the Royal College of Surgeons (Edinburgh) and American College of Surgeons. He has over 15 years of experience in the packaging business, real estates and investment. Currently, Dr. Lam spends only a limited amount of his time on his medical practice. He is also a director of all subsidiaries of the Company.

MR. CHEUNG CHUNG KIU, aged 41, was appointed Executive Director of the Company on 22 June 2000. He was born and educated in Chongqing, the People's Republic of China (the "PRC"). He set up Chongqing Industrial Limited, a substantial shareholder of the Company, in 1985, which was mainly engaged in the trading business in PRC. He is the founder and the chairman of Yugang International Limited, the Company's holding company, the chairman of Y.T. Realty Group Limited and The Cross-Harbour (Holdings) Limited and a director of Silver Grant International Industries Limited, the shares of all these companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also a director of several subsidiaries of the Company.

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Executive directors (continued)

MR. LAM HIU LO, aged 44, was appointed Executive Director of the Company on 10 November 2000. He has accumulated over 20 years' experience in sales and marketing with PRC parties and has built up a strong business and personal network in the PRC. He is an executive director of Yugang International Limited and also a director of several subsidiaries of the Company.

MR. LEUNG CHUN CHEONG, aged 56, was appointed Executive Director of the Company on 3 June 1998. Mr. Leung is mainly responsible for financial management of the Group. He is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has over 30 years of experience in senior management, professional accounting and finance. He is also the qualified accountant of the Company and a director of several subsidiaries of the Company.

MR. LEUNG WAI FAI, aged 44, was appointed Executive Director of the Company on 3 December 1999. Mr. Leung is mainly responsible for financial management of the Group. He graduated from the University of Wisconsin at Madison, the United States of America with a Bachelor Degree in business administration and is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is the group financial controller of Yugang International Limited and an executive director of The Cross-Harbour (Holdings) Limited. He is also a director of several subsidiaries of the Company.

MS. POON HO YEE AGNES, aged 38, was appointed Executive Director of the Company on 3 June 1998. Ms. Poon is mainly responsible for the Group's marketing, advertising and promotions. She holds a Master of Science in Electronic Commerce and Internet Computing Degree from the University of Hong Kong and a Bachelor Degree in Business Administration from Simon Fraser University, Canada. She is also a director of several subsidiaries of the Company.

Independent non-executive directors

MR. LAM KIN FUNG JEFFREY, aged 54, was appointed Independent Non-executive Director of the Company on 3 June 1998. He holds a Bachelor Degree from Tufts University in the United States of America. He has over 25 years of experience in the toy industry and is currently the managing director of Forward Winsome Industries Limited which is engaged in toy manufacturing and Eltee Enterprise Limited which is an investment company. He is a member of the Legislative Council, a general committee member of the Hong Kong General Chamber of Commerce and the chairman of the Hong Kong Export Credit Insurance Corporation Advisory Board. He is also an independent non-executive director of Hsin Chong Construction Group Limited, the shares of which are listed on the main board of the Stock Exchange.

MR. LAM PING CHEUNG, aged 54, was appointed Independent Non-executive Director of the Company on 8 July 1999. He graduated from the Chinese University of Hong Kong in 1977 and holds a degree of B. SOC. SCI (HON). In 1980, he went to the United Kingdom to pursue his legal studies. He qualified as a solicitor in Hong Kong in 1985 and is now the sole-proprietor of Messrs. Andrew Lam & Co. He is also an independent non-executive director of Golden Resources Development International Limited, Kith Holdings Limited, Willie International Holdings Limited, Hansom Eastern (Holdings) Limited, Unity Investments Holdings Limited and China Velocity Group Limited. He is a non-executive director of Ngai Lik Industrial Holdings Limited. The shares of all these companies are listed on the Stock Exchange.

MR. WONG WAI KWONG DAVID, aged 48, was appointed Independent Non-executive Director of the Company on 28 September 2004. He is a fellow of the Association of Chartered Certified Accountants, and a Certified Public Accountant. He has over 25 years of experience in finance, accounting, corporate and taxation affairs. He is an independent non-executive director of Yugang International Limited, Y.T. Realty Group Limited, The Cross-Harbour (Holdings) Limited, Upbest Group Limited, UBA Investments Limited and Cardlink Technology Group Limited, a non-executive director of Tonic Industries Holdings Limited, and a director of Incutech Investments Limited, EganaGoldpfeil (Holdings) Limited and Egana Jewellery & Pearls Limited. The shares of all these companies are listed on the Stock Exchange.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 December 2005, the interests and short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Interests in shares of the Company (long positions)

Name of director	Nature of interest	Number of shares held	Approximate percentage of issued share capital
Dr. Lam How Mun Peter	Personal	110,000	0.00%
Mr. Cheung Chung Kiu	Corporate (Notes 1 & 3)	2,542,396,360	64.54%
Mr. Leung Chun Cheong	Personal	7,410,000	0.19%
Ms. Poon Ho Yee Agnes	Personal	1,040,000	0.03%

(b) Interests in shares of Yugang International Limited ("Yugang"), the Company's ultimate holding company (long positions)

Name of director	Nature of interest	Number of shares held	Approximate percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (Notes 2 & 3)	3,465,434,684	39.72%
	Personal	53,320,000	0.61%
	Total	3,518,754,684	40.33%
Mr. Lam Hiu Lo	Personal	41,800,000	0.48%

(c) Interests in underlying shares of Yugang (long positions)

Name of director	Nature of interest	Number of underlying shares held	Approximate percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (Note 4)	605,792,682	6.94%

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

Notes:

1. Such shares are held through Regulator Holdings Limited ("Regulator"), an indirect wholly-owned subsidiary of Yugang, which is, in turn, owned by Chongqing Industrial Limited ("Chongqing") and Timmex Investment Limited ("Timmex") in aggregate as to 39.72%. Mr. Cheung Chung Kiu is deemed to be interested in the same number of shares held by Regulator by virtue of his indirect shareholding interests in Chongqing. As Mr. Cheung Chung Kiu has 100% beneficial interest in Timmex, he is also deemed to be interested in the same number of shares held by Timmex through Regulator.
2. Such shares are held by Chongqing as to 3,194,434,684 shares and Timmex as to 271,000,000 shares. Mr. Cheung Chung Kiu is deemed to be interested in these shares by virtue of his shareholding interests in Chongqing and Timmex.
3. Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing respectively. Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which included Mr. Cheung Chung Kiu and his family. Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates. Mr. Cheung Chung Kiu has 100% beneficial interest in Timmex.
4. Such interest is derived from a convertible note in the principal amount of HK\$70,000,000 issued by Yugang to Timmex in which Mr. Cheung Chung Kiu has 100% beneficial interest. The convertible note has a maturity date on 31 July 2007, and can be converted into Yugang's shares at a conversion price of HK\$0.075 per share during the period from 31 July 2004 to 31 July 2005 ("First Year"), HK\$0.082 per share for the period from 1 August 2005 to 31 July 2006 ("Second Year") and HK\$0.089 per share for the period from 1 August 2006 to 31 July 2007 ("Third Year"), subject to adjustment. As at 31 December 2005, Timmex has exercised the conversion right attached to the convertible note in respect of the amount of HK\$20,325,000 and a total number of 271,000,000 shares in Yugang was issued to Timmex. Such shares are part of the shares interested by Mr. Cheung Chung Kiu as disclosed under paragraph (b) "Interests in shares of Yugang International Limited ("Yugang"), the Company's ultimate holding company (long positions)" above.

Save as disclosed above, at 31 December 2005, the Company had not been notified of any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and Chief Executives' Interests in Shares of the Company and its Associated Corporations" and "Share Options" above, at no time during the year was the Company, any of its subsidiaries or its holding company, a party to any arrangement 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, and none of the directors, or any of their associates, had any rights to subscribe for shares of the Company, or had exercised any such rights during the year.

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 at the end of the year or at any time during the year.

DIRECTORS' REPORT

DIRECTOR'S SERVICE CONTRACTS

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

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources on the basis of their merit, qualifications and competence.

A Remuneration Committee is set up for reviewing the emolument policy and structure for all remuneration of the executive directors of the Company, having regard to the Group's operating results, duties and responsibilities, and individual performance. The fee for the independent non-executive directors was determined and approved by the board with reference to their duties and responsibilities with the Company. The remunerations of all directors will be reviewed on an annual basis. The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out as "Share Options" above.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder (long positions)	Capacity	Number of shares held	Approximate percentage of issued share capital
Regulator	Beneficial interest	2,542,396,360 (Note)	64.54%
Yugang International (B.V.I.) Limited ("Yugang-BVI")	Interest of controlled corporations	2,542,396,360 (Note)	64.54%
Yugang	Interest of controlled corporations	2,542,396,360 (Note)	64.54%
Chongqing	Interest of controlled corporations	2,542,396,360 (Note)	64.54%
Palin Holdings Limited ("Palin")	Interest of controlled corporations	2,542,396,360 (Note)	64.54%

Note: The interests held by Regulator, Yugang-BVI, Yugang, Chongqing and Palin respectively as shown above refer to interests in the same block of shares. Regulator is a direct wholly-owned subsidiary of Yugang-BVI, Yugang-BVI is in turn a direct wholly-owned subsidiary of Yugang. Yugang is owned by Chongqing as to 36.61% and Timmex as to 3.11%. Chongqing and Palin are controlled by Mr. Cheung Chung Kiu. The said interests are also duplicated with the interest in the Company's shares of Mr. Cheung Chung Kiu as disclosed under the heading "Directors' and Chief Executives' interests in shares of the Company and its Associated Corporations" above.

Save as disclosed above, at 31 December 2005, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company to be recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

After completion of acquisition of 60% issued share capital of Hoi Tin Universal Limited ("Hoi Tin") by the Group, Hoi Tin and its subsidiaries ("Hoi Tin Group"), which are the non-wholly owned subsidiaries of the Group, sold soft luggages, travel bags and related products amounting to approximately HK\$5,413,000 to a minority shareholder of a subsidiary of Hoi Tin Group during the period from date of acquisition to 31 December 2005. In the opinion of the Company's independent non-executive directors, the transactions were entered into in the ordinary and usual course of the Group's business, conducted on normal commercial terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole and are in accordance with the terms of the contracts governing these transactions.

Save as disclosed above, there are no other connected transactions of the Group required to be disclosed under the Listing Rules.

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.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

POST BALANCE SHEET EVENTS

Details of significant events which took place subsequent to the balance sheet date are set out in note 50 to the financial statements.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

PUBLIC FLOAT

Based on the public available information and to the best knowledge of the directors of the Company, the Company has maintained a sufficient public float throughout the year ended 31 December 2005 as required under the Listing Rules.

DIRECTORS' REPORT

AUDITORS

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

Lam How Mun Peter

Chairman and Managing Director

Hong Kong, 7 April 2006