

# REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in submitting their report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 18 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statements on page 26. The Directors do not recommend the payment of a dividend.

## SEGMENTAL INFORMATION

An analysis of the Group's performance for the year ended 31 December 2005 is set out in note 6 to the financial statements.

## RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity on page 29 respectively.

## DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2005 are set out in note 31 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 18 to the financial statements.

## BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in notes 24 to 27 to the financial statements.

## MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales attributable to the Group's major suppliers and customers are as follows:

	2005 %	2004 %
<b>Purchases</b>		
– the largest supplier	33	27
– five largest suppliers combined	60	50
<b>Sales</b>		
– the largest customer	42	45
– five largest customers combined	70	75

None of the Directors or any of their associates (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) or any shareholder (who, to the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interests in the Group's five largest suppliers or customers during the year.

# REPORT OF THE DIRECTORS

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out as below:

	2005	2004 (restated)	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
Continuing operation	<b>372,390</b>	141,655	90,022	103,380	75,186
Discontinued operation	–	–	–	9,445	37,946
	<b>372,390</b>	141,655	90,022	112,825	113,132
(Loss)/profit attributable to shareholders					
Continuing operation	<b>(292,754)</b>	(11,135)	(3,394)	(25,051)	(18,334)
Discontinued operation	–	–	–	(447)	(2,848)
	<b>(292,754)</b>	(11,135)	(3,394)	(25,498)	(21,182)
Total assets	<b>3,015,620</b>	795,554	63,338	54,521	90,426
Total liabilities	<b>(601,891)</b>	(72,754)	(49,615)	(52,673)	(66,188)
Net assets	<b>2,413,729</b>	722,800	13,723	1,848	24,238

Note: The figures for the years 2001, 2002 and 2003 are before any adjustments for the adoption of new Hong Kong Financial Reporting Standards which are effective for accounting periods beginning or after 1 January 2005.

# REPORT OF THE DIRECTORS

## SHARE OPTIONS AND SHARE CAPITAL

Details of the movements in the share options and share capital of the Company during the year are set out in notes 28 and 30 to the financial statements respectively.

## CONVERTIBLE NOTES

Details of the convertible notes of the Company are set out in note 26 to the financial statements.

## SHARE OPTION SCHEMES

At the 2004 annual general meeting of the Company held on 7 June 2004, a new share option scheme (the "New Scheme") of the Company was adopted by the shareholders of the Company to comply with the new requirements of Chapter 17 of the Listing Rules and the share option scheme of the Company being adopted on 4 July 1996 (the "Old Scheme") was terminated. Share options have been granted to eligible participants under the New Scheme, details of which are set out in note 28 to the financial statements.

Concerning the above share options granted in 2004, the Directors consider that it is not appropriate to state the value of the share options granted, because in the absence of a readily market value of the share options of the Company, the Directors were unable to arrive at an assessment of the value of these share options.

## PRE-EMPTIVE RIGHTS

There is no provision 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 pro-rata basis to existing shareholders.

## PURCHASE, 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 shares during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS

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

### EXECUTIVE DIRECTORS

Mrs. CHU Yuet Wah ( <i>Chief Executive Officer</i> )	(appointed on 6 April 2005)
Mr. WONG Hin Shek	(appointed on 23 February 2005)
Mr. CHI Chi Hung, Kenneth	(appointed on 8 June 2005)
Mr. CHEUNG Yu Shum, Jenkin	(resigned on 10 February 2006)
Mr. WONG Kui Tak	(resigned on 23 February 2005)
Mr. NG Tak Chak, Nelson	(resigned on 6 April 2005)
Mr. CHU Yuk Kuen	(resigned on 6 June 2005)

### NON-EXECUTIVE DIRECTORS

Mr. CHU, Nicholas Yuk-yui ( <i>Chairman</i> )	(appointed on 10 February 2006)
Mr. LEE Wai Man	(appointed on 6 April 2005 and resigned on 10 February 2006)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Chi Yuen	(resigned on 28 October 2005)
Mr. LAU Man Tak	(appointed on 28 October 2005)
Ms. LO Miu Sheung, Betty	(appointed on 8 June 2005)
Mr. SHUM Ka Hei	(resigned on 8 June 2005)
Dr. WONG Yun Kuen	(appointed on 8 June 2005)
Mr. WONG King Shiu, Daniel	(resigned on 8 June 2005)

In accordance with the bye-law 86(2) of the Company's Bye-laws, Mr. CHU, Nicholas Yuk-yui, Mr. CHI Chi Hung, Kenneth, Mr. LAU Man Tak, Ms. LO Miu Sheung, Betty and Dr. WONG Yun Kuen retire and, being eligible, offer themselves for re-election.

The term of office for each of the Executive Director, Non-executive Director and Independent Non-executive Director is the period up to his retirement by rotation and re-election at annual

general meeting of the Company in accordance with the Company's Bye-laws.

The Company has received from each of Mr. LAU Man Tak, Ms. LO Miu Sheung, Betty and Dr. WONG Yun Kuen an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers the Independent Non-executive Directors to be independent.

# REPORT OF THE DIRECTORS

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER**

The biographical details of Directors of the Group as at the date of this report are as follows:–

### **CHAIRMAN AND NON-EXECUTIVE DIRECTOR**

Mr. CHU, Nicholas Yuk-yui, aged 53, holds a Bachelor's degree in Accounting and a Master of Business Administration from the Louisiana State University. He has over 23 years of experience in commercial property leasing and management, and more than a total of 13 years of experience in corporate finance, foreign exchange, lending, securities and futures trading industries. Mr. CHU is a member of Hong Kong Securities Institute and a responsible officer under the Securities and Futures Ordinance for types 1 and 2 activities. Mr. CHU is the husband of Mrs. CHU Yuet Wah. Mr. CHU joined the Group in February 2006.

### **THE CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR**

Mrs. CHU Yuet Wah, aged 47, is the Chief Executive Officer and an Executive Director of the Company. Mrs. CHU has been involved in gaming entertainment related services and has profound knowledge in the development of the gaming entertainment industry in Macau. She is also the controlling shareholder of the Kingston group of companies which are engaged in securities, investment banking, financing and the financial services business in Hong Kong. Mrs. CHU is the Honorary Secretary General of The Chamber of Hong Kong Listed Companies, Director of Po Leung Kuk for years 2005-2007, School Manager of Aplichau Kai Fong Primary School, Deputy Vice Chairman of the Aplichau Kai Fong Welfare

Association and Member of the Guangdong Committee of the Chinese People's Political Consultative Conference. Mrs. CHU holds a Bachelor of Science in Management degree from Golden Gate University, the U.S.A.. Mrs. CHU is the wife of Mr. CHU, Nicholas Yuk-yui. Mrs. CHU joined the Group in April 2005.

### **EXECUTIVE DIRECTORS**

Mr. WONG Hin Shek, aged 36, has over 12 years of experience in corporate finance transactions, including mergers and acquisitions, initial public offerings and equity syndication. Mr. WONG is a responsible officer under the Securities and Futures Ordinance for type 6 regulated activity (advising on corporate finance). Mr. WONG holds a Master of Science (Financial Management) degree from University of London in United Kingdom and a Bachelor of Commerce degree from University of Toronto in Canada. He joined the Group in February 2005.

Mr. CHI Chi Hung, Kenneth, aged 37, has over 15 years of experience in accounting and financial control. Mr. CHI holds a Bachelor of Accountancy Degree from the Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. CHI is the chairman and an Executive Director of Town Health Medical Technology Holdings Company Limited (formerly known as Starbow Holdings Limited, Stock Code: 397) Mr. CHI joined the Group in June 2005.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Dr. WONG Yun Kuen, aged 48, received a Ph.D. Degree from Harvard University, and was "Distinguished Visiting Scholar" at Wharton School of the University of Pennsylvania. Dr. WONG has worked in financial industries in the United States and Hong Kong for more than 10 years, and has considerable experience in Corporate Finance, Investment and Derivative Products. He is a member of Hong Kong Securities Institute, Master Financial Professional and Fellow of American Academy of Financial Management and a Certified E-Commerce Consultant of the Institute of E-Commerce Consultant, U.S.A. Dr. WONG is an Executive Director of UBA Investments Limited (Stock Code: 768), and an independent non-executive director respectively of Grand Field Group Holdings Limited (Stock Code: 115), Ultra Group Holdings Limited (Stock Code: 8203), and Poly Investments Holdings Limited (Stock Code: 263). Harmony Asset Limited (Stock Code: 428), Bauhaus International (Holdings) Limited (Stock Code: 483), Dr. WONG was an independent non-executive director of Haywood Investments Limited (Stock Code: 905) until July 7, 2005. Dr. WONG joined the Group in June 2005.

Ms. LO Miu Sheung, Betty, aged 44, graduated from the University of Hong Kong with a Bachelor degree in Law (LL.B). Ms. Lo is a qualified solicitor in Hong Kong and has over 16 years of experience in general legal practices. Ms. LO joined the Group in June 2005.

Mr. LAU Man Tak, aged 36, holds a bachelor degree in Accountancy from the Hong Kong Polytechnic

University. He has more than 10 years of experience in corporate finance, accounting and auditing. Mr. LAU is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Hong Kong Securities Institute. Mr. LAU is an Executive Director and the company secretary of Solartech International Holdings Limited (Stock Code: 1166) and Hua Yi Copper Holdings Limited (Stock Code: 559). Mr. LAU joined the Group in October 2005.

## **EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS**

Particulars of the Directors' emoluments and of the five highest paid individuals of the Group are set out in notes 14 and 15 to the financial statements respectively.

## **DIRECTORS' SERVICE CONTRACTS**

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Saved as disclosed in note 39 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party in which any Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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## 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.

## DIRECTORS' INTEREST IN SECURITIES

As at 31 December 2005, the interests or short positions of the Directors and Chief Executive of the

Company in the shares, underlying shares and debentures of the Company or any of its associated corporation within the meaning of part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to 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 Issuers ("Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Number of shares of the Company			Total	Approximate percentage of shareholding
	Personal Interests	Corporate Interests	No. of underlying shares of the Company		
Mr. CHEUNG Yu Shum, Jenkin (Note 1)	–	108,630,000	–	108,630,000	8.96%
Mrs. CHU Yuet Wah (Note 2)	39,652,000	125,314,338	80,000,000	244,966,338	20.20%
Mr. LEE Wai Man (Note 3)	6,284,000	40,001,005	–	46,285,005	3.82%

Notes:

- (1) The shares under "Corporate Interests" were held by Perfect View Development Limited ("Perfect View"), a company incorporated in the British Virgin Islands, which is wholly-owned by Mr CHEUNG Yu Shum, Jenkin. As at 31 December 2005, Perfect View held 108,630,000 shares, subsequent to this date, Perfect View has disposed of all the shares.
- (2) As at 31 December 2005, Mrs CHU Yuet Wah (i) under "Corporate Interests", through Sure Expert Limited ("Sure Expert"), a company incorporated in the British Virgin Islands, which is wholly-owned by Mrs CHU, held 120,000,000 shares, through Kingston Capital Limited held 5,313,333 shares and through Kingston Securities Limited held 1,005 shares, both Kingston Capital Limited and Kingston Securities Limited are controlled by Mrs CHU; (ii) under "No. of underlying shares of the Company" through

Sure Expert held 80,000,000 warrants conferring rights to subscribe for up to HK\$200,000,000 in aggregate in cash for 80,000,000 new shares at an adjusted subscription price of HK\$2.50 per share. Subsequent to this date, Mrs CHU has acquired 4,674,000 shares personally and 120,592,000 shares through Sure Expert. Therefore, up to this report date, the number of shares held under personal interest is increased to 44,326,000 and under corporate interest is increased to 325,906,338, and the total number being 370,332,338 which represents 30.53% of the total number of issued shares of the Company.

- (3) Mr LEE Wai Man (i) under "Corporate Interests", through Choose Right Limited ("Choose Right"), a company incorporated in the British Virgin Islands, which is wholly-owned by Mr LEE, held 40,000,000 shares, Mr LEE's spouse held 1,005 shares through Kingston Securities Limited. Mr LEE resigned as non-executive director on 10 February 2006.

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## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the section "DIRECTORS' INTERESTS IN SECURITIES" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any Directors or any of their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2005, none of the Directors or their respective associates have any interests in a business which competes or may compete with the business of the Group directly or indirectly.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2005, the following persons or corporations other than a Director or Chief Executive of the Company, who have interests or short positions in the shares and underlying shares of the Company was recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

Number of shares of the Company

Name of Shareholders	Personal interests	Corporate Interests	No. of underlying shares of the Company	Total	Approximate percentage of shareholding
Mrs CHU Yuet Wah (Note 1)	39,652,000	125,314,338	80,000,000	244,966,338	20.20%
Sure Expert Limited (Note 1)	–	120,000,000	80,000,000	200,000,000	16.49%
Mr. CHEUNG Yu Shum, Jenkin (Note 2)	–	108,630,000	–	108,630,000	8.96%
Perfect View Development Limited (Note 2)	–	108,630,000	–	108,630,000	8.96%

Notes:

- (1) As at 31 December 2005, Mrs CHU Yuet Wah (i) under "Corporate Interests", through Sure Expert Limited ("Sure Expert"), a company incorporated in the British Virgin Islands, which is wholly-owned by Mrs CHU, held 120,000,000 shares, through Kingston Capital Limited held 5,313,333 shares and through Kingston Securities Limited held 1,005 shares, both Kingston Capital Limited and Kingston Securities Limited are controlled by Mrs CHU; (ii) under "No. of underlying shares of the Company" through Sure Expert held 80,000,000 warrants conferring

rights to subscribe for up to HK\$200,000,000 in aggregate in cash for 80,000,000 new shares at an adjusted subscription price of Hk\$2.50 per share. Subsequent to this date, Mrs CHU has acquired 4,674,000 shares personally and 120,592,000 shares through Sure Expert. Therefore, up to this report date, the number of shares held under personal interest is increased to 44,326,000 and under corporate interest is increased to 325,906,338, and the total number being 370,332,338 which represents 30.53% of the total number of issued share of the Company.



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- (2) The share under "Corporate Interests" were held by Perfect View Development Limited ("Perfect View"), a company incorporated in the British Virgin Islands, which is wholly-owned by Mr CHEUNG Yu Shum, Jenkin. As at 31 December 2005, Perfect View held 108,630,000 shares, subsequent to this date, Perfect View has disposed of all the shares.

## CONNECTED TRANSACTION

Details of the connected transactions entered into by the Company are set out in note 39 to the financial statements.

## AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three Independent Non-executive Directors.

## MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Main Board Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code during the year.

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in the previous Appendix 14 of the Listing Rules throughout the accounting period covered by the Annual Report, except that the Non-executive Director and Independent Non-executive Directors are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

## AUDITORS

Graham H Y Chan & Co. retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Mr. CHU, Nicholas Yuk-yui**

*Chairman*

Hong Kong, 19 April 2006