

Report of the Directors

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

Principal Activities

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Group is principally engaged in the processing and sale of semi-finished and finished leather. The activities of the subsidiaries and associates are set out in notes 15 and 16 to the financial statements, respectively. There were no significant changes in the nature of the Group's principal activities during the year.

Segment Information

An analysis of the Group's turnover and contribution to results by principal activity for the year ended 31 December 2005 is set out in note 4 to the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 89.

No interim dividend was paid during the year and the Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2005.

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Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate and adjusted to reflect the change in accounting policy as described in notes 2.2 and 2.4 to the financial statements. The summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Revenue					
Continuing operations	258,543	281,951	381,601	503,088	711,572
Discontinued operations	–	–	–	25,967	53,357
	258,543	281,951	381,601	529,055	764,929
Profit/(Loss) from operating activities	8,604	11,941	(95,118)	(198,453)	(62,053)
Finance costs	(3,734)	(5,734)	(5,948)	(6,387)	(15,221)
Share of results of associates	–	–	–	–	(154)
Profit/(Loss) before tax	4,870	6,207	(101,066)	(204,464)	(19,319)
Continuing operations	4,870	6,207	(101,066)	(204,464)	(19,319)
Discontinued operations	–	–	–	(376)	(58,109)
	4,870	6,207	(101,066)	(204,840)	(77,428)
Tax					
Continuing operations	533	(1,203)	286	–	88
Discontinued operations	–	–	–	–	–
	533	(1,203)	286	–	88
Profit/(Loss) before minority interests	5,403	5,004	(100,780)	(204,840)	(77,340)
Minority interests	–	–	–	177	5,575
Net Profit/(loss) from ordinary activities attributable to shareholders	5,403	5,004	(100,780)	(204,663)	(71,765)

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Financial Summary (Continued)

Assets and liabilities

	As at 31 December				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Assets					
Property, plant and equipment,					
Investment property and					
Prepaid land lease payments	86,325	95,031	100,228	152,831	174,431
Trademarks	–	–	–	–	1,500
Interest in an associate	4,336	–	–	–	–
Other long term assets	–	–	–	1,268	–
Current assets	291,636	301,883	361,503	301,479	368,287
Total assets	382,297	396,914	461,731	455,578	544,218
Liabilities					
Current liabilities	205,146	233,002	300,824	181,546	149,567
Long term liabilities	4,717	4,765	4,196	18,882	65,489
Total liabilities	209,863	237,767	305,020	200,428	215,056
Minority interests	–	–	–	–	4,171
Net assets	172,434	159,147	156,711	255,150	324,991

Property, Plant and Equipment and Investment Properties

Details of movements in property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 12 and 13 to the financial statements.

Share Capital and Share Options

There were no movements in either the Company's authorized or issued share capital during the year. Details of the Company's movements in the share options during the year, together with the reasons therefore, are set out in note 28 to the financial statements.

Purchase, Redemption or Sale of Listed Securities of the Company

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

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Reserves

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

Distributable Reserves

At 31 December 2005, no reserves, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, is available for cash distribution.

Charitable Contributions

The Group did not make any charitable contributions during the year (2004: Nil).

Directors

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

Zhang Chunting (<i>Chairman</i>)	
Deng Rongjun (<i>Managing Director</i>)	(appointed on 21 December 2005)
Xiong Guangyang	
Fung Lak*	
Choi Kam Fai Thomas*	
Chan Cheong Tat*	(appointed on 22 March 2006)
Ho Lam Lai Ping Theresa	
Wu Jiesi	(resigned on 29 April 2005)
Chen Hong	(resigned on 8 June 2005)
Hui Wai Man Lawrence	(resigned on 21 December 2005)
Cheng Hok Lai James*	(resigned on 23 December 2005)

* *Independent Non-Executive Director*

Mr. Deng Rongjun and Mr. Chan Cheong Tat, who were appointed Directors of the Company after the last Annual General Meeting of the Company are due to retire pursuant to Article 77 of the Company's Article of Association at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election.

Mr. Xiong Guangyang is due to retire by rotation from the Board in accordance with Article 82 of the Company's Article of Association at the forthcoming Annual General Meeting. Being eligible, he offers himself for re-election.

Directors' Service Contracts

No Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

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Directors' Interests in Contracts of Significance

No contracts of significance to which the Company or the Company's subsidiaries or holding company or a subsidiary of the Company's holding company was a party and in which a Director of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interest in Securities

Directors' interest and short position in the securities

As at 31 December 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(1) *Interests and short positions in the Company – Interest in options relating to ordinary shares*

Name of director	No. of options held on 01/01/2005	Options granted during the year Date (dd/mm/yy)	Number	Period during which option is exercisable (dd/mm/yyyy) (Note)	Total consideration paid for options (HK\$)	Price per Ordinary Share payable on exercise of option (HK\$)	Number of options exercised during the year	No. of options held on 31/12/2005
Zhang Chunting	2,500,000	-	-	10/09/2003-09/09/2008	1	0.220	-	2,500,000
	2,000,000	-	-	12/05/2004-11/05/2009	1	0.246	-	2,000,000
Deng Rongjun	1,500,000	-	-	12/05/2004-11/05/2009	1	0.246	-	1,500,000
Xiong Guangyang	3,000,000	-	-	10/09/2003-09/09/2008	1	0.220	-	3,000,000
	2,200,000	-	-	12/05/2004-11/05/2009	1	0.246	-	2,200,000
Fung Lak	300,000	-	-	10/09/2003-09/09/2008	1	0.220	-	300,000
	300,000	-	-	12/05/2004-11/05/2009	1	0.246	-	300,000

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

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(2) Interests and short positions in Guangdong Investment Limited ("GDI")

a. Interest in ordinary shares of GDI

Name of director	Nature of interests	Number of shares	% of issued share capital of GDI	Long/short positions
Ho Lam Lai Ping Theresa	Personal	600,000	0.01	Long position

Note: The number of ordinary shares of GDI in issue as at 31 December 2005 was 6,017,518,071.

b. Interest in options relating to ordinary shares of GDI

Name of director	No. of options held on 01/01/2005	Options granted during the year		Period during which option is exercisable	Total consideration paid for options	Price per Ordinary Share payable on exercise of option	Number of options exercised during the year	No. of options held on 31/12/2005
		Date	Number	(dd/mm/yyyy) (Note)	(HK\$)	(HK\$)		
Ho Lam Lai Ping Theresa	900,000	-	-	05/03/2003–04/03/2008	1	0.96	-	900,000
	1,500,000	-	-	08/08/2003–07/08/2008	1	1.22	-	1,500,000
	1,500,000	-	-	07/05/2004–06/05/2009	1	1.59	-	1,500,000
	1,000,000	-	-	25/08/2004–24/08/2009	1	1.25	-	1,000,000

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

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(3) *Interests and short positions in Kingway Brewery Holdings Limited ("Kingway") – Interest in ordinary shares of Kingway*

Name of director	Nature of interests	Number of shares	% of issued share capital of Kingway	Long/short positions
Ho Lam Lai Ping Theresa	Personal	80,000	0.0057	Long position

Note: The number of ordinary shares of Kingway in issue as at 31 December 2005 was 1,395,568,000.

Save as disclosed above, as at 31 December 2005, to the knowledge of the Company, none of the Directors or chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

Substantial Shareholders' Interests

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to any Director or chief executive of the Company, as at 31 December 2005, the persons or companies (not being a Director or chief executive of the Company) who have interests or short positions in the Ordinary Shares or underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholders	Capacity/nature of interest	Number of Ordinary Shares of the Company held		Long/short position	Percentage of issued capital
		Direct Interests	Deemed Interests		
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note)	Beneficial owner/ Interest of controlled corporation	–	375,100,000	Long position	71.56
GDH Limited	Beneficial owner/ Interest of controlled corporation	375,100,000	–	Long position	71.56

Note: The attributable interest which 廣東粵港投資控股有限公司(Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100 per cent. direct interest in GDH.

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Save as disclosed above, as at 31 December 2005, the Directors are not aware of any other person who had an interest or short position in the shares, underlying shares or debentures which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Arrangements to Purchase Shares or Debentures

Save as disclosed in the sections headed “Directors’ Interests in Securities” of this report, and in note 28 to the financial statements, at no time during the year was the Company, any subsidiaries or holding company of the Company or any subsidiaries of the Company’s holding company, a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Post Balance Sheet Events

The Group has no significant events subsequent to the balance sheet date.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditors

A resolution will be proposed at the forthcoming Annual General Meeting for the re-appointment of Messrs. Ernst & Young as the auditors of the Company.

By Order of the Board
Zhang Chunting
Chairman

Hong Kong, 31 March 2006