

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

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries, jointly-controlled entity and principal associates are set out in notes 19 to 21 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit 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 108.

An interim dividend of HK3 cents per ordinary share was paid on 31 October 2005. The directors recommend the payment of a final dividend of HK5 cents per ordinary share in respect of the year to shareholders on the register of members on 18 May 2006. This recommendation has been incorporated in the financial statements as an allocation of contributed surplus within the equity section of the balance sheet.

Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 110. This summary does not form part of the audited financial statements.

Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 109.

Share capital, share options, warrants and convertible bonds

There were no movements in the Company's authorised or issued share capital during the year.

During the year, the Company did not issue any share options, warrants, convertible bonds or similar rights.

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.

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.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 39(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$571,749,000, of which approximately HK\$24,535,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of approximately HK\$198,801,000, may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group made charitable contributions totalling approximately HK\$664,000.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 40% of the total sales for the year and sales to the largest customer included therein amounted to approximately 24%. Purchases from the Group's five largest suppliers accounted for approximately 36% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 16%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

Directors

The directors of the Company during the year were:

Executive directors:

Luk King Tin
Cheng Cheung
Luk Yan
Fan Chiu Tat, Martin

Independent non-executive directors:

Liu Li Yuan
Liang Fang
Tam Kan Wing (appointed on 1 December 2005)
Chan Yuk Tong (resigned on 1 December 2005)

Subsequent to the balance sheet date, on 12 January 2006, Mr. Luk Fung was appointed as an executive director of the Company.

In accordance with clause 87 of the Company's bye-laws, Madam Cheng Cheung will retire and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

Directors (Cont'd)

In accordance with clause 86(2) of the Company's bye-laws, Mr. Tam Kan Wing, being the independent non-executive director of the Company, and Mr. Luk Fung, being the executive director of the Company, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for a period of one year.

The Company has received annual confirmations of independence from Mr. Liu Li Yuan, Mr. Liang Fang and Mr. Tam Kan Wing and still considers them to be independent.

Directors' and senior management's biographies

Mr. Luk King Tin, aged 68, is the chairman of the board and the chief executive officer of the Company. Mr. Luk is also the founder of the Group and has been with the Group for over 30 years. He is responsible for formulating the Group's strategies and policies.

Madam Cheng Cheung, aged 65, is an executive director of the Company. Madam Cheng is the wife of Mr. Luk King Tin and has been with the Group for over 30 years. She is mainly responsible for the finance, human resources and administrative functions of the Group.

Mr. Luk Yan, aged 41, is an executive director of the Company. Mr. Luk is a son of Mr. Luk King Tin and Madam Cheng Cheung. He is now responsible for the Group's property investments and management in Vietnam. He has been with the Group for 16 years.

Mr. Luk Fung, aged 37, is an executive director of the Company. Mr. Luk is a son of Mr. Luk King Tin and Madam Cheng Cheung. He has years of experience in the financial services industry prior to joining the Group. Mr. Luk graduated from Simon Fraser University in Canada. He is responsible for the development of the traditional Chinese medicine business of the Group. He has been with the Group for 6 years.

Mr. Fan Chiu Tat, Martin, aged 39, is an executive director and the company secretary of the Company. He graduated from the University of Hong Kong. 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. Fan is also the financial controller of the Company. He has been with the Group for 16 years.

Mr. Liu Li Yuan, aged 55, is an independent non-executive director of the Company. Mr. Liu is a graduate with a diploma from the Faculty of Law of the University of Beijing. He is currently a managing director of a property investment and management company in the People's Republic of China.

Mr. Liang Fang, aged 54, is an independent non-executive director of the Company. Mr. Liang is the holder of a MBA degree from the Massachusetts Institute of Technology of the United States of America. He has been working in the IT business for a number of years. Mr. Liang is currently the president of Asia of Freeborders Limited.

Mr. Tam Kan Wing, aged 40, is an independent non-executive director of the Company. Mr. Tam is a sole proprietor of a CPA firm in Hong Kong. He is the holder of a bachelor degree of Arts in Accountancy from the City University of Hong Kong. He is also a fellow member of both the Hong Kong Institute of Certified Public Accountants and Taxation Institute of Hong Kong. He has more than 17 years of experience in the auditing, taxation, finance and accounting fields.

Directors' and senior management's biographies (Cont'd)

Mr. Chan Yuk Tong, aged 43, was an independent non-executive director of the Company. Mr. Chan is a shareholder and a director of a CPA firm and a financial consulting firm in Hong Kong. He is the holder of a bachelor degree in Commerce from the University of Newcastle in Australia. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He has around 20 years of experience in auditing, accounting, management consultancy and financial advisory services. He resigned as the independent non-executive director of the Company on 1 December 2005.

Directors' service contracts

No director 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' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' interests and short positions in shares and underlying shares

At 31 December 2005, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Luk King Tin	(a)	170,471,286	–	57,226,071	227,697,357	46.40
Cheng Cheung	(b)	16,012,800	–	36,912,027	52,924,827	10.79
Luk Yan	(c)	3,370,800	54,000	–	3,424,800	0.70
Fan Chiu Tat, Martin		500,000	–	–	500,000	0.10
		<u>190,354,886</u>	<u>54,000</u>	<u>94,138,098</u>	<u>284,546,984</u>	<u>57.99</u>

Directors' interests and short positions in shares and underlying shares (Cont'd)

Long positions in shares of an associated corporation:

Name of director	Note	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Luk King Tin	(d)	Vigconic International (Holdings) Limited (formerly known as Heritage Ventures International Limited) ("VI")	Company's subsidiary	1,974,921	Through controlled corporation	25

Notes:

- (a) Mr. Luk King Tin had a beneficial interest in KT (Holdings) Limited, which held 57,226,071 shares of the Company at the balance sheet date.
- (b) Madam Cheng Cheung had a beneficial interest in CC (Holdings) Limited, which held 36,912,027 shares of the Company at the balance sheet date.
- (c) Mr. Luk Yan had a family interest, which held 54,000 shares of the Company at the balance sheet date.
- (d) Mr. Luk King Tin had a beneficial interest in Vigconic Biotechnology Company Limited, which held 1,974,921 shares of US\$1 each of VI at the balance sheet date.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2005, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares

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 director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

At 31 December 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
KT (Holdings) Limited	Directly beneficially owned	57,226,071	11.66
CC (Holdings) Limited	Directly beneficially owned	36,912,027	7.52

Save as disclosed above, as at 31 December 2005, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Connected transactions

Details of the connected transactions are set out in notes 43(b) and 43(c) to the financial statements.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Luk King Tin

Chairman

Hong Kong

20 April 2006