

Directors' Report

The Board of Directors submit their annual report together with the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in investment holding. The Group through various subsidiaries is engaged in property investments, investment in trading securities, automobile sales and repairing in the PRC and provision of brokerage and financial services. Details of the principal activities and other particulars of the Company's subsidiaries and associates are set out in notes 17 and 18 to the financial statements respectively.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 26.

The Board of Directors does not recommend the payment of a final dividend.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$633,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 76 and page 77.

INVESTMENT PROPERTIES AND FIXED ASSETS

Details of significant changes in the investment properties and fixed assets of the Group during the year are set out in notes 15 and 16 respectively to the financial statements.

Particulars of the major properties of the Group as at 31 December 2005 are set out on page 78.

BORROWINGS

Details of the bank and other borrowings of the Group and the Company are set out in note 22 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

SHARE OPTIONS

Details of the share option scheme of the Company are set out in note 26 to the financial statements. During the year, 137,358,374 share options were granted and exercised under the share option scheme of the Company. At 31 December 2005, no share option was outstanding.

PURCHASE, SALE AND 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.

CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Save as set out in notes 23, 26 and 27 to the financial statements, the Company or any of its subsidiaries had no outstanding convertible securities, options or similar rights as at 31 December 2005. There were exercise of convertible notes of HK\$200,000,000 at HK\$0.25 during the year.

DIRECTORS

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

Executive Directors:

Chuang Yueheng, Henry	
King Phillip	(appointed on 22 April 2005)
Lo Kan Sun	
Wong Ying Seung, Asiong	
Chung Wilson	(redesignated as non-executive director on 15 September 2005)
Wong Wai Man, Raymond	(appointed on 22 April 2005 and resigned on 22 December 2005)

Non-executive Directors:

Lau Da Yip	(appointed on 15 April 2005 and resigned on 25 January 2006)
Chung Wilson	(appointed on 15 September 2005 and resigned on 1 December 2005)

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Independent Non-executive Directors:

Lam Ping Cheung	
Miu Frank H.	
Nakajima Toshiharu	(appointed on 4 January 2005)
Lin Wai Yi	(appointed on 7 February 2005)
Liu Jian	(appointed on 24 January 2006)
Pang Shuen Wai, Nichols	(appointed on 22 April 2005 and resigned on 25 January 2006)
Ong Peter	(resigned on 7 February 2005)

Alternate Director:

Lee Kwan Ching	(appointed on 24 January 2006)
<i>(Alternate Director to Mr. Lo Kan Sun)</i>	

In accordance with article 120 of the articles of association of the Company, Mr. Chuang Yueheng, Henry, Mr. Lam Ping Cheung and Mr. Miu Frank H. retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 100 of the articles of association of the Company, Mr. King Phillip and Mr. Liu Jian retire and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

The term of office of each Independent Non-executive Director is for a period of three years but subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company.

The Directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Directors of the Company who held office at 31 December 2005 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' interests and short positions required to be kept under section 352 of the SFO:-

Interests in the Company

Name of Director	Number of ordinary shares of HK\$0.1 each held		% of holding Ordinary shares
	Personal interests	Family interests	
Wong Ying Seung, Asiong	29,516,000	—	1.35

Apart from the foregoing, none of the Directors of the Company or any of their spouses or children under eighteen years of age has any interest or short position in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as set out in note 26 to the financial statements regarding the Company's share option scheme, at no time during the year was the Company, any of its holding company, subsidiaries or fellow subsidiaries 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. Since the adoption of the share option scheme, 137,358,374 options were granted and exercised during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Details of Directors' interests in contracts are set out in notes 34(b) to the financial statements. Saved as disclosed above, no other contract of significance to which the Company, its holding company or 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.

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CONNECTED TRANSACTIONS

The following transactions occurred during the year:

- (a) A property of the Group with net book value of HK\$21,190,000 (2004: HK\$21,724,000) is occupied by a brother of a Director of the Company free of rental. The Director's brother is a director of certain companies within the HMIL Group.
- (b) Details of the securities margin loans granted by the HMIL Group to the Executive Directors of the Company are stated in note 34(b) to the financial statements.
- (c) During the year, the Group paid placing commission of HK\$690,480 and financial advisory fee of HK\$38,000 to the HMIL Group.
- (d) At the balance sheet date, the Company had executed a guarantee of HK\$30,000,000 for banking facilities granted to the HMIL Group which was utilised to the extent of HK\$21,425,000.
- (e) At the balance sheet date, the Group held the HMIL's convertible notes amounting to HK\$131,000,000. Details of HMIL's convertible note are stated in note 18(b)-(g) to the financial statements.
- (f) During the year, the Group paid option fee of approximately HK\$7.14 million (equivalent to RMB7.5 million) to a brother of a Director of the Company, for a call option granted to the Group. Details of the call option are stated in note 19 to the financial statement. The Director's brother is a director of certain companies within the HMIL Group.
- (g) During the year, the Group provided a shareholder's loan of HK\$150,000,000 to Found Macau Investments International Limited and an impairment loss of HK\$75,000,000 was made at the balance sheet date. Details are stated in note 18(a) and 18(j) to the financial statements.

The Directors confirm that the above transactions have been entered by the Group in the ordinary course of its business and are in accordance with the terms of the agreements governing such transactions.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interests in the Company's issued shares at 31 December 2005 amounting to 5% or more of the ordinary shares, warrants and convertible notes in issue:

Interests in the Company

	Number of ordinary shares of HK\$0.1 each held	% of holding Ordinary shares
Heritage International Holdings Limited	510,000,000	16.82
Radford Capital Investment Limited (Note 1)	182,959,363	6.03
Unity Investments Holdings Limited (Note 1)	168,704,000	5.56

Note 1: Radford Capital Investment Limited (Stock code: 901) and Unity Investments Holdings Limited (Stock code: 913) are public shareholders, within the meaning of the Listing Rules.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

RETIREMENT SCHEME

The Group provides a defined contribution retirement scheme under the Mandatory Provident Fund Scheme in Hong Kong to all staff. Under the Scheme, employer and employees are each required to make contributions to the scheme at 5% of the employees' relevant income.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

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.

AUDITORS

A resolution will be submitted at the annual general meeting to re-appoint Messrs. Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, as auditors of the Company.

On behalf of the Board

Chuang Yueheng, Henry

Chairman

Hong Kong, 13 April 2006