

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2005.

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 45 and 20 respectively to the financial statements.

Results

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 22.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 34 to the financial statements.

Major Customers and Suppliers

The five largest customers of the Group together accounted for approximately 43.8% of the Group's turnover, with the largest customer accounted for approximately 17.5%. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases of the Group.

Reserves

Under The Companies Act 1981 of Bermuda, the Company's contributed surplus account is available for distribution. 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 its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserves available for distribution to its shareholders as at 31st December, 2005 are approximately HK\$64,330,000, being the contributed surplus of approximately HK\$78,447,000 less deficit of approximately HK\$14,117,000.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

Directors

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

Executive Directors:

Mr. Lam Kwok Hing (*Chairman and Managing Director*)

Mr. Nam Kwok Lun (*Deputy Chairman*)

(appointed on 5th February, 2005)

Mr. Lam Kwok Yan

(resigned on 5th February, 2005)

Independent Non-executive Directors:

Mr. Ng Chi Kin David

Mr. Cheung Kin Wai

Mr. Kwan Wang Wai Alan

(re-designated on 27th April, 2005)

In accordance with Clause 87 of the Company's Bye-laws, Mr. Ng Chi Kin David retires and, being eligible, offers himself for re-election.

The terms of office of each independent Non-executive Director are the period up to their retirement by rotation in accordance with the above clause.

The director being proposed for re-election at the forthcoming annual general meeting does not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Service Contracts

Each of executive directors had a service contract with the Company. These service contracts continued unless and until terminated by either the Company or the directors giving to the other 6 months' notice in writing.

Directors' Report

Directors' Interests in Shares

At 31st December, 2005, the interests of the directors in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (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 Companies, were as follows:

Long position

Ordinary shares of HK\$0.01 each of the Company

Name of director	Number of issued ordinary shares held		Total	Percentage of the issued share capital of the Company
	Personal interest	Corporate interest		
Mr. Lam Kwok Hing	3,474,667	250,516,500 (Note)	253,991,167	59.56%

Note: The amount composed of 48,520,666 and 201,995,834 shares of the Company that were held by Medusa Group Limited ("Medusa") and Karfun Investments Limited ("Karfun") respectively. Medusa is a company wholly owned by Mr. Lam Kwok Hing. Karfun is a wholly-owned subsidiary of Karl Thomson Holdings Limited, a company in which Mr. Lam Kwok Hing is a controlling shareholder.

Save as disclosed above, except for nominee shares in certain subsidiaries held in trust for the Company by certain directors, none of the directors, the chief executive or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2005.

Connected Transactions

- (1) During the year, Mr. Lam Kwok Yan, the former Chairman of the Company, has transferred 1,000 shares in Asia Nice Art Production Limited ("ANA") to the Group at nil consideration. The transfer represented 10% interest in the entire issued capital of ANA. The net assets of ANA at the date of transfer were HK\$5,524,000 and therefore the deemed benefits transferred to the Group were HK\$552,400.
- (2) During the year, the Group has paid approximately HK\$45,000 as brokerage commission to Karl Thomson Securities Company Limited, which is a wholly owned subsidiary of KTH in which Mr. Lam Kwok Hing has a beneficial interest.
- (3) During the year, the Group has paid approximately HK\$46,000 as tickets distribution service charges to Mr. Nam Kwok Wai, a brother of Mr. Lam Kwok and Mr. Nam Kwok Lun.
- (4) In November 2005, the Group has through a wholly owned subsidiary Longfaith Holdings Ltd ("Longfaith"), formed a company SunArt Entertainment Ltd ("SunArt") with a wholly owned subsidiary of Simsen International Corporation Ltd ("Simsen"), whose ultimate major shareholder of Mr. Haywood Cheung is the cousin of Mr. Lam Kwok Hing and Mr. Nam Kwok Lun. Both Longfaith and Simsen have each paid HK\$600,000 into SunArt as capital investment. The principal activities of SunArt are organising arts performance and social functions.

Directors' Interest in Contracts of Significance

Other than as disclosed under the heading "connected transactions" above, no contract 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.

Share Options

The Company has share options schemes under which executive directors and employees of the Company or any of its subsidiaries may be granted options to subscribe for shares in the Company. Details of the options schemes are set out in note 35 to the financial statements. There were no outstanding options at the beginning and at the end of the year.

Arrangements to Purchase Shares or Debentures

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report

Substantial Shareholders

As at 31st December, 2005, the following persons (other than the Directors of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in the ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Number of ordinary shares held	Percentage of Company's issued share capital
Karfun Investment Limited	Interest of controlled corporation	201,995,834	47.37
Medusa Group Limited	Interest of controlled corporation	48,520,666	11.38

Please refer to the note under the section heading "Director's Interests in Shares" above.

Save as disclosed above, as at 31st December, 2005, no person (other than the Directors of the Company whose interests are set out under the heading "Directors' Interests in Shares" above) had an interest or a short position in the shares and underlying shares of the Company that was required to be recorded under Section 336 of SFO.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the law of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices of the Company is set out in the "Corporate Governance Report" on page 16 to 20.

Sufficiency of Public Float

Based on the information that is publicly available to the company and within the knowledge of its directors, the Company has maintained sufficient public floats as required under the Listing Rules as at the date of this report.

Auditors

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

LAM KWOK HING

CHAIRMAN AND MANAGING DIRECTOR

Hong Kong, 24th April, 2006