

The directors submit their report together with the audited accounts for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 14 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 23.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 27 and note 22 to the accounts.

DISTRIBUTABLE RESERVES

At 31 December 2005, distributable reserves of the Company amounted to HK\$926,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group at 31 December 2005 are set out in note 23 to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 62.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

The directors during the year were:

Executive directors

Mr. Yiu Ching On
Mr. Yiu Kwok Ming, Tommy
Ms. Wong Kai Chun

Independent non-executive directors

Mr. Cheung Wing Yui
Mr. Wong Shiu Hoi, Peter
Mr. Lo Wai Kon

In accordance with Clause 99 of the Company's bye-laws, Mr. Cheung Wing Yui and Mr. Lo Wai Kon will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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 within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Related party transactions" set out in note 30 to the accounts, no other contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on page 11.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2005, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under 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 Companies contained in the Listing Rules ("Model Code"):

Shares — long position

The Company:

Name of directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yiu Ching On	752,000	—	—	117,618,055 (note d)	118,370,055
Ms. Wong Kai Chun	—	118,370,055 (note a)	—	—	118,370,055
Mr. Yiu Kwok Ming, Tommy	1,100,000	—	49,857,142 (note c)	117,618,055 (note b)	168,575,187
Mr. Lo Wai Kon	218,000	—	—	—	218,000

Notes:

- (a) Such shares are beneficially owned by her spouse.
- (b) Happy Joy Limited, a company wholly-owned by Mr. Yiu Ching On, and Determine Win Investments Limited in its capacity as trustee of The Yiu's Family Unit Trust owns approximately 5.02% and 94.98% of the issued share capital of Jarak Assets Limited, respectively which in turn holds 117,618,055 shares. HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Trust, the beneficiaries of which include Mr. Yiu Kwok Ming, Tommy.
- (c) Such shares are beneficially owned by Cotton Row Limited, a company wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.
- (d) Mr. Yiu Ching On was founder of The Yiu's Family Trust, a discretionary trust.

Associated corporation:

Name of associated corporation	Name of director	Personal interests	Family interests	Corporate interests
Ching Hing Weaving Dyeing & Printing Factory Limited	Mr. Yiu Ching On	14,196,591	376,427 (note b)	28,023,134 (note c)
	Mr. Yiu Kwok Ming, Tommy	—	1,000,000 (note b)	—

Notes:

- (a) The above represent interests in non-voting deferred shares.
- (b) Such non-voting deferred shares are beneficially owned by the spouse of the respective directors.
- (c) Filand Limited and Clear Picture Holdings Limited, companies wholly-owned by Mr. Yiu Ching On, a director of the Company, beneficially owned 10,633,875 and 17,389,259 non-voting deferred shares respectively.

Save as disclosed above, at no time during the year had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

At no time during the year was the Company or its 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.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the following companies have long positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Number of shares held	Percentage of issued share capital at 31 December 2005
Jarak Assets Limited (note a)	117,618,055	36.7%
Determine Win Investments Limited (note a)	117,618,055	36.7%
HSBC International Trustee Limited (note b)	117,618,055	36.7%
HSBC Investment Bank Holdings B.V. (note b)	117,618,055	36.7%
HSBC Holdings B.V. (note b)	117,618,055	36.7%
HSBC Finance (Netherlands) (note b)	117,618,055	36.7%
HSBC Holdings plc (note b)	117,618,055	36.7%
Modern Fashion Inc. (note e)	32,500,000	10.1%
Happy Joy Limited (note c)	30,000,000	9.4%
Cotton Row Limited (note d)	19,857,142	6.2%

Notes:

- (a) Jarak Assets Limited is owned as to approximately 94.98% by Determine Win Investments Limited in its capacity as the trustee of The Yiu's Family Unit Trust.
- (b) HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Trust.

HSBC International Trustee Limited is a wholly-owned subsidiary within the HSBC Group. Their interests in the shares of the Company duplicate with each other.
- (c) Happy Joy Limited is wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.
- (d) Cotton Row Limited is wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.
- (e) Modern Fashion Inc is wholly-owned by Mr. Yiu Kwok Yung who is a son of Mr. Yiu Ching On and the brother of Mr. Yiu Kwok Ming, Tommy.

CONNECTED TRANSACTIONS

The Company has entered into certain connected transactions during the year ended 31 December 2005. All connected party transactions are also regarded as related party transactions and disclosed in note 29 to the accounts. The independent non-executive directors of the Company have reviewed the continuing connected transactions and confirm that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

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.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
— the largest supplier	12%
— five largest suppliers combined	24%
Sales	
— the largest customer	12%
— five largest customers combined	36%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DIRECTORS' INTEREST IN COMPETING INTEREST

None of the directors or the management shareholders (as defined in the Main Board Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Corporate Governance Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited throughout the accounting period, except that no Remuneration Committee meeting was convened in the year and the Chairmen for Audit Committee and Remuneration Committee were not called to attend the Company's Annual General Meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in Model Code.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that the Company has received from each of its independent non-executive directors an annual confirmations of his independence pursuant to Rule 3.13 of the Listing Rules and considered all of the independent non-executive directors to be independent throughout the year.

SUFFICIENCY OF PUBLIC FLOAT

The company has maintained a sufficient public float throughout the year.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Messrs, Cheung Wing Yui, Wong Shiu Hoi, Peter and Lo Wai Kon. Two meetings were held during the current financial year. The Audit Committee had reviewed the audited results of the Group for the year ended 31 December 2005.

AUDITORS

The accompanying financial statements for the year ended 31 December 2005 were audited by Horwath Hong Kong CPA Limited. A resolution for the re-appointment of Horwath Hong Kong CPA Limited as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yiu Ching On
Chairman

Hong Kong, 20 April 2006