

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 principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in notes 19 and 20 to the financial statements, respectively.

### **RESULTS AND DIVIDENDS**

The Group's loss 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 24 to 95.

The Directors did not recommend the payment of any dividend in respect of the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate and after adjustment for the effect of the prior year adjustment in 2005 is set out below.

	Year ended 31 December				
	2005	2004	2003	2002	2001
RESULTS	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TURNOVER</b>					
Continuing operations	25,813	141,619	–	–	–
Discontinuing operations	–	2,475	195,456	152,916	152,821
Discontinued operations	–	–	–	–	40,342
	<u>25,813</u>	<u>144,094</u>	<u>195,456</u>	<u>152,916</u>	<u>193,163</u>
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>					
	<u>(150,640)</u>	<u>(50,682)</u>	<u>(36,693)</u>	<u>(27,953)</u>	<u>(341,359)</u>
<b>ASSETS, LIABILITIES AND MINORITY INTERESTS</b>					
	As at 31 December				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)	(Restated)
Total assets	95,255	307,422	566,697	475,855	519,053
Total liabilities	(59,846)	(126,966)	(298,189)	(219,527)	(231,256)
Minority interests	(179)	(1,078)	(107,453)	(96,451)	(99,216)
	<u>35,230</u>	<u>179,378</u>	<u>161,055</u>	<u>159,877</u>	<u>188,581</u>

## 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 are set out in notes 16 and 17 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company for the year ended 31 December 2005, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements, respectively.

## 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.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

The Company did not have any reserves available for cash distribution or distribution in specie at 31 December 2005 as computed in accordance with the Companies Act 1981 of Bermuda (as amended). The Company's share premium account of HK\$564,123,000 as at 31 December 2005. On 20 March 2006, the entire amount standing to the credit of share premium account and the credit arising from the Capital Reduction were transferred to the contributed surplus account. And the entire amount standing to the contributed surplus account was applied to set off against the accumulated losses of the Company.

## DIRECTORS

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

### *Executive Directors*

Kwok Ying Chuen

Yu Won Kong, Dennis

Wong Tak Chung, Andrew (appointed on 20 September 2005)

### *Non-executive Director*

Li Siu Lok, Albert (resigned on 16 March 2005)

### *Independent Non-executive Directors*

Tso Hon Sai, Bosco

Kwok Chi Sun, Vincent

Cheng Wing Keung, Raymond

In accordance with Bye-laws 91 and 99(B) of the Company's Bye-laws, Mr. Wong Tak Chung, Andrew, Mr. Tso Hon Sai, Bosco and Mr. Kwok Chi Sun, Vincent, will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of each independent non-executive Director, is the period up to his retirement by rotation in accordance with the Bye-laws of the Company.

## DIRECTORS' SERVICE CONTRACTS

No director 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 Group within one year without payment of compensation other than statutory compensation.

Mr. Kwok Ying Chuen has entered into a service contract with the Company for a term of two years commencing on 1 October 2004 which is subject to termination by either party by giving not less than three months' written notice.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN 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 and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance of the Laws of Hong Kong (the "SFO")) which were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange, were as follows:

### Long position in ordinary shares of HK\$0.01 each of the Company:

Name of Director	Nature of interest	Number of ordinary shares held	Percentage holdings
Yu Won Kong, Dennis	Beneficial	50,000,000	0.37%

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

### Long Position in underlying shares

Under the share option scheme of the Company, share options may be granted to Directors, employees and other eligible participants to subscribe for shares. No share options was granted to any Director during the year and as at 31 December 2005, no Director has any outstanding interest in any share options.

## 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' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company, or any of its subsidiaries a party to any arrangement whose objects were to enable a Director or his respective spouse or minor children to acquire benefits by means of acquisition of shares of the Company or any other body corporate, or were any such rights exercised by them.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SECURITIES

As at 31 December 2005, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the Company or had any option in respect of such capital:

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

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage holding
Ample Glory Limited		Directly beneficially owned	1,970,771,910	14.49
Kwok Ying Leung	(a)	Through a controlled corporation	1,970,771,910	14.49
Cheung Lai Sheung, Winnie	(b)	Through family members	1,970,771,910	14.49
Foundation Group Limited	(c)	Corporate	779,910,624	5.73

#### Notes:

- The ordinary shares of HK\$0.01 each of the Company were held by Ample Glory Limited, which was wholly-owned by Mr. Kwok Ying Leung. Accordingly, Mr. Kwok Ying Leung was deemed to be interested in the 1,970,771,910 shares held by Ample Glory Limited.
- Ms. Cheung Lai Sheung, Winnie was deemed to be interested in 1,970,771,910 shares by virtue of the interest in such shares of her spouse, Mr. Kwok Ying Leung.
- The 779,910,624 shares are beneficially owned by Gold Venture Corporation Limited. Gold Venture Corporation Limited is 100% controlled by Value Place Investments Limited, which in turn is 100% controlled by Foundation Group Limited.

Save as disclosed above, as at 31 December 2005, so far as is known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had any interests or short positions in shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the Company or held any option in respect of such capital.

### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for 49% of the Group's total sales for the year and sales to the largest customer included therein amount to 31%. Purchases from the Group's five largest suppliers accounted for 70% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to 45%.

None of the Directors 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 suppliers.

### **CONNECTED TRANSACTIONS**

On 24 June 2005, Everich International Group Limited, an indirect non-wholly-owned subsidiary of the Company, entered into a provisional agreement with Mr. Ng Po Mo ("Mr. Ng") to sell a residential premises located at Duplex Flat D, 7th Floor, and 8th Floor, Block 1 with carparking space at Parc Oasis, No. 43 Tat Chee Avenue, Kowloon, Hong Kong (the "Property") at a consideration of HK\$8,800,000 (the "Transaction"). Mr. Ng, a director of Excel Harvest Corporation Limited, a wholly-owned subsidiary of the Company and therefore Mr. Ng was a connected person of the Company as defined in the Listing Rules. As such, the Transaction was a discloseable and connected transaction under the Listing Rules. The Company considered the property market conditions had improved and it was the right time to realize the Property. The proceeds received would improve the financial position of the Group. The Transaction was completed on 30 July 2005.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

### **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

### **CORPORATE GOVERNANCE**

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 16 to 21.

## BOARD PRACTICES

The Company had received an annual confirmation of independence from each of the independent non-executive Director pursuant to Rule 3.13 of the Listing Rules. The Company was of the view that all the independent non-executive Directors met the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

## AUDITORS

Moore Stephens retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Fortuna International Holdings Limited**

**Kwok Ying Chuen**

*Director*

Hong Kong, 21 April 2006