



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of Poly (Hong Kong) Investments Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 56 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 32 of the annual report.

An interim dividend of HK\$0.02 per share, amounting to HK\$17,900,000, was paid to the shareholders during the year. The directors recommend a final dividend of HK\$0.03 per share to the shareholders on the register of members on 23rd June, 2006.

SHARE CAPITAL

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company, details of which are set out in note 38 to the financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

Details of movements in the share capital of the Company are set out in note 38 to the financial statements.

INVESTMENT PROPERTIES

At 31st December, 2005, the investment properties of the Group were revalued by an independent firm of professional surveyor and property valuer on an open market value basis at HK\$1,357,774,000.

Details of these and other movements in the investment properties of the Group for the year are set out in note 18 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 19 to the financial statements.



DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Wang Jun (*Chairman*)

He Ping (*Vice-Chairman*)

Li Shi Liang (*Managing Director*)

Chan Tak Chi, William

Chen Hong Sheng

Zhang Zhen Gao

(appointed on 20th April, 2006)

Xue Ming

(appointed on 20th April, 2006)

Non-executive director:

Ip Chun Chung, Robert

Independent non-executive directors:

Yao Kang, J.P.

Choy Shu Kwan, Wilson

Lam Tak Shing

In accordance with Article 116 of the Company's Articles of Association, Messers. Wang Jun, He Ping and Chan Tak Chi, William will retire and being eligible, offer themselves for re-election.

The term of office of each of the non-executive director and independent non-executive directors is 3 years from 6th October, 2005, subject to retirement by rotation as required by the Company's Articles of Association.

None of the directors being 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.

The Company has received an annual written confirmation from each of the independent non-executive directors concerning their independence and considered that the independent non-executive directors to be independent in accordance with the independence guidelines set out in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").



DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2005, the interest of the directors of the Company in the underlying shares 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 ("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 were as follows:

Long positions

Share options of the Company

Name of director	Capacity	Number of options held	Number of underlying shares
Wang Jun	Beneficial owner	24,400,000	24,400,000
He Ping	Beneficial owner	24,400,000	24,400,000
Li Shi Liang	Beneficial owner	13,000,000	13,000,000
Chen Hong Sheng	Beneficial owner	8,000,000	8,000,000
Chan Tak Chi, William	Beneficial owner	300,000	300,000
Ip Chun Chung, Robert	Beneficial owner	300,000	300,000
Yao Kang, J.P.	Beneficial owner	500,000	500,000
Lam Tak Shing	Beneficial owner	300,000	300,000
Choy Shu Kwan, Wilson	Beneficial owner	300,000	300,000
		<hr/> 71,500,000	<hr/> 71,500,000

Save as disclosed above, none of the directors nor 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.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 39 to the financial statements.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section of "Directors' interests in Securities" above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or 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.



DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that, at 31st December, 2005, the following shareholders had notified the Company of their interests and short positions in the issued share capital of the Company.

Long positions

Ordinary shares of HK\$0.5 each of the Company

Name of shareholder	Number of shares		Total number of shares	Percentage of the issued share capital of the Company
	Beneficial owner	Held by controlled corporation(s)		
Musical Insight Holdings Limited	44,658,800	–	44,658,800	4.99%
Wincall Holding Limited	55,428,000	–	55,428,000	6.20%
Congratulations Company Ltd.	169,845,000	–	169,845,000	18.99%
Source Holdings Limited	228,398,760	100,086,800	328,485,560	36.72%
		(Note 1)		
Ting Shing Holdings Limited	–	498,330,560	498,330,560	55.70%
		(Note 2)		
Ringo Trading Limited	44,283,476	498,330,560	542,614,036	60.66%
		(Note 3)		
China Poly Group Corporation	–	542,614,036	542,614,036	60.66%
		(Note 4)		
Chee Ying Cheung	80,952,000	–	80,952,000	9.05%

Note:

1. Source Holdings Limited is deemed by the SFO to be interested in 328,485,560 shares of the Company as a result of its direct holding of the shares and indirect holdings of the shares through its wholly-owned subsidiaries, Musical Insight Holdings Limited and Wincall Holding Limited.
2. Ting Shing Holdings Limited is deemed by the SFO to be interested in 498,330,560 shares as a result of its indirect holding of the shares through its subsidiaries, representing Source Holdings Limited and Congratulations Company Ltd.
3. Ringo Trading Limited is deemed by the SFO to be interested in 542,614,036 shares as a result of its direct holding of the shares and indirect holding of the shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
4. China Poly Group Corporation owns 100% of Ringo Trading Limited and is accordingly deemed by the SFO to be interested in the shares directly and indirectly owned by Ringo Trading Limited.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2005.



DIRECTORS' REPORT

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 53 to the financial statements. In the opinion of the directors who do not have any interest in these transactions, the transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.

The independent non-executive directors of the Company had reviewed the connected transaction in respect of property rental income as set out in note 53(I)(A) to the financial statements and in their opinion:

1. the on-going Connected Transactions were entered into in the ordinary and usual course of business of the Company;
2. the on-going Connected Transactions were conducted on normal commercial terms;
3. the on-gong Connected Transactions were entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended 31st December, 2005 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code (Appendix 10 to the Listing Rules). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.



DIRECTORS' REPORT

EMOLUMENT POLICY

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits including insurance and medical cover and share options are also provided.

The determination of emoluments of the directors of the Company has taken into consideration their expertise and job specifications.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event are set out in note 55 to the financial statements.

AUDITORS

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

On behalf of the Board

Li Shi Liang

MANAGING DIRECTOR

Hong Kong, 20th April, 2006