

REPORT OF THE DIRECTORS

The directors of Chitaly Holdings Limited (the “Company”) present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit 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 27 to 80.

An interim dividend of HK9.5 cents per ordinary share was paid on 27 September 2005. The directors recommend the payment of a final dividend of HK5.5 cents per ordinary share note 12 in respect of the year, to shareholders on the register of members on 26 May 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SEGMENT INFORMATION

An analysis of the Group’s turnover and contribution to operating profit for the year by principal activities is set out in note 4 to the financial statements.

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SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined financial results and of consolidated/combined assets and liabilities of the Group for the last five years, prepared on the basis set out in the note below:

| | Year ended 31 December | | | | |
|--|------------------------|------------------|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| | (Restated) | | | | |
| RESULTS | | | | | |
| REVENUE | 413,257 | 403,766 | 300,719 | 207,020 | 164,758 |
| PROFIT BEFORE TAX | 80,446 | 131,857 | 88,998 | 51,252 | 37,615 |
| Tax | (2,254) | (23,855) | (11,754) | (6,738) | (5,138) |
| Net profit from ordinary activities attributable to shareholders | 78,192 | 108,002 | 77,244 | 44,514 | 32,477 |
| ASSETS AND LIABILITIES | | | | | |
| Non-current assets | 247,809 | 184,013 | 134,167 | 75,662 | 45,319 |
| Current assets | 297,007 | 245,285 | 142,422 | 118,931 | 53,536 |
| Current liabilities | (178,756) | (177,188) | (105,352) | (61,571) | (53,525) |
| Non-current liabilities | (18,094) | (18,634) | (6,363) | (6,363) | – |
| | 347,966 | 233,476 | 164,874 | 126,659 | 45,330 |

PROPERTY, PLANT AND EQUIPMENTS

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in note 26 and 27 to the financial statements.

PRE-EMPTIVE RIGHTS

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

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PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased certain of its shares on the Hong Kong Stock Exchange and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 26 to the financial statements.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK\$135,610,000 of which HK\$14,306,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$147,490,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$250,000. (2004: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 17.4% of the total sales for the year and sales to the largest customer included therein amounted to 5.4% . Purchases from the Group's five largest suppliers accounted for approximately 51% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 20% .

None of the directors of the Company 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 customers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive directors:

| | |
|-----------------------|------------------------------------|
| Mr. Tse Kam Pang | |
| Mr. Lam Toi | |
| Ms. Lam Ning, Joanna | (resigned on 30 June 2005) |
| Mr. Ma Ming Fai, Gary | (re-designated on 21 January 2005) |

Independent non-executive directors:

| | |
|-----------------------------------|--------------------------------|
| Mr. Donald H. Straszheim | |
| Mr. Tsao Kwang Yung, Peter | (passed away on 5 June 2005) |
| Mr. Yau Chung Hong | (appointed on 21 January 2005) |
| Mr. Chang Chu Fai Johnson Francis | (appointed on 1 July 2005) |

In accordance with article 87 of the Company's articles of association, one-third of the directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors, but excluding the chairman of the board of directors of the Company, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

The Company has received annual confirmations of independence from Mr. Donald H. Straszheim, Mr. Yau Chung Hong and Mr. Chang Chu Fai Johnson Francis, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Tse Kam Pang, Mr. Lam Toi, Ms. Lam Ning, Joanna and Mr. Tsao Kwang Yung, Peter have entered into a service agreement with the Company for an initial term of two years commencing from 1 May 2002, respectively, which will automatically continue thereafter until terminated by not less than two months' notice in writing served by either party to the other.

Other executive directors or independent non-executive directors have no fixed-term service contracts with the Company, but they are subject to retirement and re-election at annual general meetings of the Company in accordance with the rotation requirements under the articles of association of the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to 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 Issuers, were as follows:

Long positions in ordinary shares of the Company:

| Name of director | Notes | Number of shares held, capacity and nature of interest | | | | Total | Percentage of the Company's issued share capital |
|-----------------------|-------|--|----------------------------------|--------------------------------|------------------------|------------|--|
| | | Directly beneficially owned | Through spouse or minor children | Through controlled corporation | Beneficiary of a trust | | |
| Mr. Tse Kam Pang | (a) | 4,600,000 | – | 71,450,000 | – | 76,050,000 | 29.24% |
| Mr. Ma Ming Fai, Gary | | 200,000 | – | – | – | 200,000 | 0.08% |
| | | 4,800,000 | – | 71,450,000 | – | 76,250,000 | 29.32% |

The interests of the directors in the share options of the Company are separately disclosed in note 27 to the financial statements.

Notes:

- (a) The 71,450,000 shares of the Company are held by Crisana International Inc. ("Crisana"), a company incorporated in the British Virgin Islands. As at 31 December 2005, Mr. Tse Kam Pang held 100% of the issued share capital of Crisana.

No directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2005, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to 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 Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 27 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the Group’s operations. Under the Scheme, the directors may, at their discretion, invite any employees, directors or consultants of any company in the Group to acquire options. The Scheme became effective on 26 April 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option scheme of the Company pursuant to which options may from time to time be granted to directors, consultants and/or employees of any company in the Group, shall initially not exceed 10% of the relevant class of securities of the Company in issue excluding, for this purpose, shares issued on exercise of options under the Scheme and any other share option scheme of the Company. Upon the grant of options for shares up to 10% of the relevant class of securities of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under this scheme when aggregated with securities to be issued under any other share option scheme of the Group, may be increased by the board of directors, provided that the shares to be issued upon exercise of all outstanding options do not exceed 30% of the relevant class of securities in issue from time to time.

No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital of the Company from time to time.

An option may be exercised in accordance with the terms of the Scheme at any time during the option period (and not more than 10 years after the date of grant). The option period will be determined by the board of directors and communicated to each grantee. The board of directors may provide restrictions on the time during which the options may be exercised. There are no performance targets which must be achieved before any of the options can be exercised. However, the board of directors retains discretion to accelerate the vesting of fixed-term options in the event that certain performance targets are met.

The subscription price for the Company’s shares under the Scheme will be a price determined by the board of directors and notified to each grantee. The subscription price will be the highest of: (i) the nominal value of a share; and (ii) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheet on the date of grant, which must be a trading day; and (iii) the average closing price of the shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of grant. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Scheme) and to have taken effect when the acceptance form as described in the share option scheme is completed, signed and returned by the grantee with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant.

As at 31 December 2005, the number of shares issuable under share options granted under the Scheme was 7,300,000, which represented 3% of the Company’s shares in issue as at that date. The maximum number of shares issuable under share options which may be granted to each eligible participant in the Scheme within any 12-month period up to the date of latest grant, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders’ approval in a general meeting.

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SHARE OPTION SCHEME (CONTINUED)

The directors have estimated the values of the share options granted during the year, calculated using a binomial pricing model as at the date of grant of the options:

| Grantee | Number of options granted during the year | Theoretical value of share options HK\$'000 |
|-----------------------------------|--|---|
| Mr. Ma Ming Fai, Gary | 2,300,000 | 1,932 |
| Mr. Tsao Kwang Yung, Peter | 200,000 | 202 |
| Mr. Yau Chung Hong | 200,000 | 202 |
| Mr. Chang Chu Fai Johnson Francis | 200,000 | 156 |
| Other employees | 2,400,000 | 1,848 |
| | 5,300,000 | 4,340 |

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

The share options granted under the Scheme for a consideration of HK\$1.00 per grant during the year are set out below:

| Name or category of participant | Number of share options | | | | | | Date of grant of share options* | Exercise period | Price of the Company's shares *** | | | |
|---------------------------------------|---------------------------------------|-------------------------------|---------------------------------|---------------------------------|---------------------------------|------------------------------|--|---------------------------|-----------------------------------|--------------------------------|---|-----------------------------------|
| | At the beginning of the year | Granted during the year | Exercised during the year | Cancelled during the year | Forfeited during the year | At the end of the year | | | Exercise price per share ** | At grant date of options | Immediately before the exercise date | At exercise date of options |
| | | | | | | | | | HK\$ | HK\$ | HK\$ | HK\$ |
| Directors | | | | | | | | | | | | |
| Donald H. Straszheim | 800,000 | – | – | – | – | 800,000 | 28/9/2004 | 29/9/2004 to 28/9/2014 | 4.875 | 4.875 | – | – |
| Ma Ming Fai | – | 2,300,000 | – | – | (2,300,000) | – | 28/1/2005 | 29/1/2005 to 28/1/2015 | 5.85 | 5.85 | – | – |
| Yau Chung Hong | – | 200,000 | – | – | – | 200,000 | 8/4/2005 | 9/4/2005 to 8/4/2015 | 7.45 | 7.45 | – | – |
| Tsao Kwang Yung, Peter | – | 200,000 | – | (200,000) | – | – | 8/4/2005 | 9/4/2005 to 8/4/2015 | 7.45 | 7.45 | – | – |
| Chang Chu Fai Johnson Francis | – | 200,000 | – | – | – | 200,000 | 6/9/2005 | 7/9/2005 to 6/9/2015 | 4.57 | 4.35 | – | – |

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SHARE OPTION SCHEME (CONTINUED)

| Name or category of participant | Number of share options | | | | | | Date of grant of share options* | Exercise period | Price of the Company's shares *** | | | |
|---|------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|------------------------|---------------------------------|--------------------------|-----------------------------------|--------------------------|---------------------------------------|-----------------------------|
| | At the beginning of the year | Granted during the year | Exercised during the year | Cancelled during the year | Forfeited during the year | At the end of the year | | | Exercise price per share ** | At grant date of options | Immediately before the exercises date | At exercise date of options |
| | | | | | | | | | HK\$ | HK\$ | HK\$ | HK\$ |
| Others | | | | | | | | | | | | |
| Members of senior management and other employees of the Group | - | 2,400,000 | - | - | - | 2,400,000 | 24/2/2005 | 25/2/2005 to 24/2/2015 | 5.76 | 5.70 | - | - |
| | 100,000 | - | - | - | - | 100,000 | 28/9/2004 | 29/9/2004 to 28/9/2014 | 4.875 | 4.875 | - | - |
| | 6,000,000 | - | (2,400,000) | - | - | 3,600,000 | 15/10/2004 | 16/10/2004 to 15/10/2014 | 4.675 | 4.55 | - | 7.10 |
| | <u>6,100,000</u> | <u>2,400,000</u> | <u>(2,400,000)</u> | <u>-</u> | <u>-</u> | <u>6,000,000</u> | | | | | | |
| In aggregate | 6,900,000 | - | (2,400,000) | - | - | 4,500,000 | | | | | | |
| | <u>-</u> | <u>5,300,000</u> | <u>-</u> | <u>(200,000)</u> | <u>(2,300,000)</u> | <u>2,800,000</u> | | | | | | |
| | <u>6,900,000</u> | <u>5,300,000</u> | <u>(2,400,000)</u> | <u>(200,000)</u> | <u>(2,300,000)</u> | <u>7,300,000</u> | | | | | | |

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2005, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

| Name | Notes | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital |
|--|-------|---------------------------------|--------------------------------|--|
| Crisana | (a) | Directly beneficially owned | 71,450,000 | 27.47% |
| Lloyd George Investment Management (Bermuda) Ltd | | Directly beneficially owned | 26,140,000 | 10.05% |
| Deutsche Bank Aktiengesellschaft | | Directly beneficially owned | 13,000,000 | 5.00% |
| Fidelity International Limited | | Directly beneficially owned | 15,970,000 | 6.14% |
| JP Morgan Chase & Co. | | Directly beneficially owned | 21,132,000 | 8.12% |

(a) The ordinary shares are held by Crisana, which is wholly owned by Mr. Tse Kam Pang, a director.

Save as disclosed above, as at 31 December 2005, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered an interest of short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2005 was 3,200 (2004: 2,700). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus share option may also be granted to eligible employees and persons of the Group. At 31 December 2005, there were outstanding share options of approximately 7.3 million.

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CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 9 to page 13.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tse Kam Pang

Chairman and Executive Director

Hong Kong

26 April 2006