

Report of the Directors

The directors present their report together with the audited financial statements of the Company and of 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 16 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 loss for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 98.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005.

Summary Financial Information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 99 of the annual report. This summary does not form part of the audited financial statements.

Property, Plant and Equipment, and Investment Properties

Details of movements in the property, plant and equipment of the Company and of the Group, and of the investment properties of the Group during the year are set out in notes 12 and 13, respectively, to the financial statements.

Share Capital, Share Options and Convertible Bond

Details of movements in the Company's share capital, share options and convertible bond during the year, together with the reasons therefor, are set out in notes 28, 29 and 26 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.

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.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

Distributable Reserves

At the balance sheet date, the Company's reserves available for cash distribution and distribution in specie were HK\$48,736,000. In addition, in accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK\$307,164,000, may be distributed in the form of fully paid bonus shares.

Financial Resources and Liquidity

The Group generally finances its operations with internally generated cash flows and with facilities mainly provided by banks in Mainland China. At the balance sheet date, the Group had cash and bank balances and deposits totalling HK\$133,505,000.

At the balance sheet date, the Group had convertible bond of HK\$29,782,000 and aggregate bank loans of approximately HK\$54,140,000, of which approximately HK\$31,247,000 is repayable within one year from the balance sheet date.

Major Customers and Suppliers

In the year under review, the percentage of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (i) The aggregate amount of sales attributable to the Group's five largest customers represented 93% of the total sales for the year. The sales from the Group's largest customer represented 24% of the Group's total sales for the year.
- (ii) The aggregate amount of purchases attributable to the Group's largest supplier accounted for 100% of the Group's total purchases for the year.

As far as the directors of the Company are aware, neither the directors, their respective associates nor 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 or five largest suppliers.

Report of the Directors

Directors

The directors of the Company during the year were:

Executive Directors:

Ho Tsam Hung, <i>Vice Chairman</i>	(re-designated as Vice Chairman on 1 September 2005)
Ho Kam Hung, <i>Managing Director</i>	
Yang Jia Jian	(appointed on 17 May 2005)
Ho Pak Hung	(resigned on 17 May 2005)

Non-executive Directors:

Yeung Mo Sheung, Ann	(appointed on 17 May 2005)
Lam Kuo, <i>Chairman</i>	(appointed on 25 August 2005 and elected as Chairman on 1 September 2005)

Independent Non-executive Directors:

Young Kwok Sui	
Wong Ting Kon	(appointed on 17 May 2005)
Lawrence K. Tam	(appointed on 15 December 2005)
Wong Miu Ting, Ivy	(appointed on 15 December 2005)
Zhang Jie	(resigned on 17 May 2005)
Ng Kin Sun	(resigned on 23 September 2005)

Subsequent to the balance sheet date, on 16 March 2006, Young Kwok Sui was re-designated as a non-executive director of the Company.

In accordance with the Company's bye-laws, Ho Tsam Hung, Yang Jia Jian, Yeung Mo Sheung, Ann, Lam Kuo, Wong Ting Kon, Lawrence K. Tam and Wong Miu Ting, Ivy will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

All non-executive directors and independent non-executive directors are appointed for a term of one year, and in accordance with the Company's Bye-laws, they will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' and Senior Management Biographical

The biographical details of the directors and the senior management of the Company are set out on pages 19 to 20 of the annual report.

Directors' Service Contracts

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.

Emolument Policy and Directors' Remuneration

The directors' remuneration is subject to shareholders' approval at general meetings with reference to the recommendation of the Group's remuneration committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive directors is to enable the Group to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salaries, discretionary bonuses and housing benefits.

Directors' Interests in Contracts

No contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director had a material interest, either directly or indirectly, subsisted as at the balance sheet date or at any time during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Directors' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2005, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Positions in Ordinary Shares of the Company:

Name of director	<i>Notes</i>	Number of shares held	Percentage of the Company's issued share capital
Ho Tsam Hung	(a)	155,000,000	3.16
Ho Kam Hung	(b)	270,000,000	5.51
		425,000,000	8.67

The above shares are held by the directors through controlled corporations.

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

Report of the Directors

Directors' Interests and Short Positions in Shares and Underlying Shares *(Continued)*

Long Positions in Shares of Associated Corporations:

Name of director	Name of associated corporation	Relationship with the Company	Shares/equity derivatives	Numbers of shares/equity derivatives held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Ho Tsam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
Ho Kam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13

Notes:

- (a) 155,000,000 shares are held by Morgan Estate Assets Limited, a company beneficially owned by Ho Tsam Hung.
- (b) 270,000,000 shares are held by Morcambe Corporation, a company beneficially owned by Ho Kam Hung.

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 16 to the financial statements.

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.

Directors' Rights to Acquire Shares

Save as disclosed in note 29 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 or any other body corporate granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or minor children to acquire such rights in any other body corporate.

Directors' Interests in a Competing Business

Pursuant to Rule 8.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), details of the interests held by certain directors in a business, which competes or is likely to compete with the Group, are disclosed as follows:

Certain directors, through a private company, hold interests in a development site located at Jie Fang Nan Road, Yuexiu District, Guangzhou with an intention to develop the site into residential and commercial properties. The site is currently erected with a temporary distribution centre for shoes and related products. The distribution centre is currently managed by a separate management team which is independent from the management of the Group. Given the different location and market segment of the distribution centre, which is situated at Yuexiu District, and of the Group's shopping arcade, which is situated in Chongqing, the directors consider that competition between the two properties is remote and unlikely.

Profiles of Directors and Senior Management

Directors

Name	Age	Position	Number of years of service with the Group	Business experience
Ho Tsam Hung	53	Vice Chairman	15	Over 15 years' experience in property development and investment in Mainland of the People's Republic of China ("Mainland China")
Ho Kam Hung	51	Managing Director	15	Over 15 years' experience in property development and investment in Mainland China
Yang Jia Jian	41	Executive Director	Newly appointed on 17 May 2005	Over 19 years' experience in project management

Report of the Directors

Profiles of Directors and Senior Management *(Continued)*

Directors *(Continued)*

Name	Age	Position	Number of years of service with the Group	Business experience
Lam Kuo	57	Non-Executive Chairman	Newly appointed on 25 August 2005 and elected as Non-Executive Chairman on 1 September 2005	Over 20 years' business experience
Yeung Mo Sheung, Ann	41	Non-Executive Director	Newly appointed on 17 May 2005	Over 6 years' experience in legal field
Young Kwok Sui	48	Independent Non-Executive Director	3	Over 18 years' experience in accountancy and management consultancy services
Wong Ting Kon	35	Independent Non-Executive Director	Newly appointed on 17 May 2005	Over 12 years' experience in accounting and auditing
Lawrence K. Tam	61	Independent Non-Executive Director	Newly appointed on 15 December 2005	Over 25 years' experience in banking and finance field
Wong Miu Ting, Ivy	44	Independent Non-Executive Director	Newly appointed on 15 December 2005	Over 20 years' experience in auditing and business advisory field

Senior Management

Goh Choo Hwee	34	Company Secretary	1	Over 10 years' experience in legal and corporate finance
Lee Tao Wai, Edward	27	Group Accounting Manager	1	Over 6 years' experience in accounting and auditing
Chun Wai Yin, Alex	40	Accounting Manager	14	Over 18 years' experience in accounting and treasury management

Employees and Remuneration Policy

The Group employed approximately 28 full-time staff in Hong Kong and Mainland China as at 31 December 2005. Employees are remunerated according to the nature of their job and market trends, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Mainland China, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, the Mandatory Provident Fund scheme and an employees' share option scheme.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2005, the following interests and short positions of 5% or more of the issued share capital, convertible bond and Option (as defined below) 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 Position:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Noble Idea Investments Limited (<i>Note 1</i>)	Directly beneficially owned	441,000,000	8.99
Choi Kwan Yee (<i>Note 1</i>)	Through controlled corporation	441,000,000	8.99
High Rank Enterprises Limited (<i>Note 2</i>)	Directly beneficially owned	317,000,000	6.47
Morcambe Corporation (<i>Note 3</i>)	Directly beneficially owned	270,000,000	5.51
Ye Jia Li (<i>Note 3</i>)	Through spouse	270,000,000	5.51
On Tai Profits Limited (<i>Note 4</i>)	Directly beneficially owned	270,000,000	5.51
Liang Gui Fen (<i>Note 4</i>)	Through spouse	270,000,000	5.51

Notes:

- Noble Idea Investments Limited is wholly-owned by Choi Kwan Yee.
- Each of Ho Tsam Hung and Ho Kam Hung, being the executive directors, is interested in approximately 31.58% of the issued share capital of High Rank Enterprises Limited. Ho Tsam Hung and Ho Kam Hung are brothers.
- Morcambe Corporation is wholly-owned by Ho Kam Hung. As Ye Jian Li is the spouse of Ho Kam Hung, she is deemed to be interested in the 270,000,000 shares held by Morcambe Corporation.
- On Tai Profits Limited is wholly-owned by a former director, Ho Pak Hung. As Liang Gui Fen is the spouse of the former director, she is deemed to be interested in the 270,000,000 shares held by On Tai Profits Limited.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares *(Continued)*

Pursuant to the subscription agreement dated 16 July 2005 entered into between Asia Pacific Broadband Entertainment Corporation Limited ("APBE") (formerly known as CNC Broadband Entertainment Corporation Limited) and the Company in relation to the issue of a convertible bond in a principal amount of HK\$30,000,000 (the "Bond") to APBE. Assuming full conversion of the Bond at the initial conversion price of HK\$0.15 per share, subject to adjustment from time to time, the maximum number of ordinary shares of HK\$0.02 each in the capital of the Company which may be newly issued is 200,000,000 shares. As at 31 December 2005, the conversion right was not exercised. Subsequent to the balance sheet date, on 24 February 2006, APBE exercised its conversion right of the Bond and the Company issued 200,000,000 shares of HK\$0.02 each.

On 31 August 2005 and 23 September 2005, a subscription agreement and a supplemental agreement (the "Agreements") were entered into between the Company, Hero Grand Investments Limited ("Hero Grand") and a guarantor, namely Leung Po Wa ("Leung"). Both Hero Grand and Leung are independent third parties. Pursuant to the Agreements, Hero Grand conditionally agreed to subscribe for 200,000,000 new shares (the "Subscription Shares") at a subscription price of HK\$0.036 per share, and the Company conditionally agreed to grant an option (the "Option") to Hero Grand at a price of HK\$2,280,000. Pursuant to the Option, Hero Grand will be entitled to subscribe a maximum of 570,000,000 new shares (the "Option Shares") at an exercise price of HK\$0.038 per share, subject to adjustments, at anytime from the date of the completion of the supplemental agreement and up to 31 December 2006. The Subscription Shares were allotted and issued to Hero Grand in October 2005 for cash, resulting in cash proceeds, before expenses of HK\$7,200,000. As at 31 December 2005, the Option had not been exercised.

Subsequent to the balance sheet date, on 18 April 2006, Hero Grand served the notice for subscription of 100,000,000 Option Shares at an exercise price of HK\$0.038. The 100,000,000 Option Shares were allotted and issued on 25 April 2006, and a gross proceeds of HK\$3,800,000 was raised by the Company.

Subsequent to the balance sheet date, a capital reorganisation (the "Capital Reorganisation") to consolidate every ten ordinary shares of HK\$0.02 each in the issued and unissued share capital of the Company into one ordinary share of HK\$0.20 each was approved by shareholders at the special general meeting of the Company held on 27 April 2006. As a result of the Capital Reorganisation, the exercise price of the Option was adjusted from HK\$0.038 per share to HK\$0.38 per share. The maximum number of Option Shares to be subscribed under the Option was adjusted from 470,000,000 to 47,000,000.

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

Disclosure pursuant to Rule 13.20 of the Listing Rules

In accordance with the disclosure requirements of Rule 13.20 of the Listing Rules prevailing as at 31 December 2005, the following disclosure is included in respect of a receivable from an entity. As at 31 December 2005, the Group has a receivable from the following entity which exceeds 8% of the market capitalisation of the Company as of that date.

	<i>Note</i>	2005 HK\$'000	2004 HK\$'000
Guangdong Properties Investment Ltd. ("Guangdong Properties")	(i)	40,000	90,000

Note:

- (i) The receivable from Guangdong Properties, an independent third party, represented an outstanding balance for the consideration of HK\$350 million for the disposal of a 51% equity interest of a subsidiary in prior years. The balance is unsecured, interest-free and is payable on or before 31 January 2007.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Company and of the Group are set out in note 37 to the financial statements.

Sufficiency of Public Float

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at 5 July 2006.

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

Ho Kam Hung

Managing Director

Hong Kong

5 July 2006