

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 39 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 25 of the annual report.

An interim dividend of HK1.5 cents per share amounting to HK\$10,832,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK3 cents per share to the shareholders on the register of members on 15 June 2006, amounting to HK\$21,663,000.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The Group revalued its land and buildings at the year end date. The revaluation resulted in a surplus and a deficit over book values amounting to HK\$9,872,000 and HK\$975,000, which has been credited directly to the property revaluation reserve and charged to income statement, respectively.

The Group revalued its investment properties at the year end date. The net increase in fair value of investment properties, which has been credited directly to income statement, amounted to HK\$3,700,000.

Details of these and other movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 17 and 18 to the financial statements, respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2005 were as follows:

	2005 HK\$'000	2004 HK\$'000
Contributed surplus	244,461	244,461
Retained profit (accumulated losses)	3,200	(726)
	247,661	243,735

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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 and restated and reclassified as appropriate, is set out on page 78. This summary does not form part of the audited financial statements.

DIRECTORS

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

Executive directors:

Mr. Huang Ying Yuan (Chairman)

Mr. Chen Hsing Shin (Vice Chairman)

Madam Huang Chen Li Chu (Vice Chairman)

Mr. Leung Man Fai

Mr. Chen An-Hsin *(resigned on 1 March 2005)*

Independent non-executive directors:

Mr. Lim Pat Wah Patrick

Mr. Huang Zhi Wei

Mr. Yang Yu Fu

In accordance with clause 87 of the Company's Bye-Laws, Mr. Huang Ying Yuan, Mr. Chen Hsing Shin and Mr. Leung Man Fai retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

The terms of office of the independent non-executive directors are subject to retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for Messrs. Leung Man Fai, has entered into a service agreement with the Company for a period of three years commencing 1 December 1998 and will continue thereafter unless and until terminated by either party by three months' prior written notice.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company and its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2005, the interests of the directors and their associates in the shares and 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 of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Number of shares held as		Total	Approximate % of the issued share capital	Share options
	Beneficial owner	Spouse interests			
Mr. Huang Ying Yuan	104,153,360	43,336,180 (Note 1)	147,489,540	20.43	7,000,000 (Note 2)
Mr. Chen Hsing Shin	96,805,800	—	96,805,800	13.41	3,500,000
Madam Huang Chen Li Chu	43,336,180	104,153,360 (Note 1)	147,489,540	20.43	7,000,000 (Note 3)
Mr. Leung Man Fai	—	—	—	—	2,500,000

Notes:

1. The spouse interest represents the shares held by the spouse of Mr. Huang Ying Yuan and Madam Huang Chen Li Chu, respectively. Madam Huang Chen Li Chu is the wife of Mr. Huang Ying Yuan.
2. It represents 4,000,000 share options beneficially owned by Mr. Huang Ying Yuan and 3,000,000 share options held by the spouse of him.
3. It represents 3,000,000 options beneficially owned by Madam Huang Chen Li Chu and 4,000,000 share options held by the spouse of her.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations, which were recorded in the register maintained by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 32 to the financial statements.

The following table discloses movements in the Company's share options during the year:

Directors	Date of grant	Number of share options of the Company outstanding at 1 January 2005 and 31 December 2005
Mr. Huang Ying Yuan	18 August 1999	4,000,000
Mr. Chen Hsing Shin	18 August 1999	3,500,000
Madam Huang Chen Li Chu	18 August 1999	3,000,000
Mr. Leung Man Fai	18 August 1999	2,500,000
		13,000,000

The share options were granted by the Company on 18 August 1999 to subscribe for shares in the Company at an exercise price of HK\$1.26 per share, subject to adjustment. These share options are exercisable from 1 January 2000 to 17 August 2009.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

The Group had made sales of infant products, toys and other products of HK\$4,537,000 to 好萊兒嬰兒用品有限公司, a company in which Huang Tien Cheng, a brother of Mr. Huang Ying Yuan, has beneficial and controlling interests.

Details of the discloseable connected transactions during the year are set out in note 28 to the financial statements. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors.

The independent non-executive directors have reviewed the above connected transactions and confirm that these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on arm's length basis, on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) in accordance with the terms of the agreements governing such transactions.

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Save as disclosed therein and in note 28 to the financial statements:

- (i) no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long position in shares and underlying shares of the Company

Name of substantial shareholder	Number of shares	Capacity	Approximate % of the issued share capital
Templeton Investment Counsel, LLC	43,129,968	Investment manager	6.0%
OCM Emerging Markets Funds, LP	38,122,000	Investment manager	5.3%
Gold Field Business Ltd.	36,689,675	Beneficial owner	5.1%
Mr. Chen An Hsin	36,689,675	Corporate interest (<i>Note i</i>)	5.1%
Veer Palthe Voute NV	36,364,000	Investment manager (<i>Note ii</i>)	5.0%
Dresdner Bank Aktiengesellschaft	36,364,000	Corporate interest (<i>Note ii</i>)	5.0%
Allianz Aktiengesellschaft	36,364,000	Corporate interest (<i>Note ii</i>)	5.0%

Notes:

- (i) Mr. Chen An Hsin owns the entire interest of Gold Field Business Ltd.
- (ii) Veer Palthe Voute NV was 100% indirectly owned by Dresdner Bank Aktiengesellschaft, which was in turn 81.1% indirectly owned by Allianz Aktiengesellschaft.

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$136,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 40.3% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 20.0% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the total purchases of the Group.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers of the Group.

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 THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the directors, who are authorised by the shareholders in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to directors and eligible employees, details of the scheme are set out in note 32 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

On behalf of the board

HUANG Ying Yuan

CHAIRMAN

13 April 2006