



# DIRECTORS' REPORT

## DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st March 2006.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associate are set out in notes 38 and 19 respectively to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March 2006 are set out in the consolidated income statement on page 34.

The Directors do not recommend the payment of a final dividend for the year ended 31st March 2006.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 98.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$26,415,000 on additions to property, plant and equipment mainly for the expansion and enhancement of its production capability.

Details of movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22nd August 2006 to 24th August 2006, both days inclusive, during which period no transfer of shares will be effected.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares.

## DISTRIBUTABLE RESERVES OF THE COMPANY

At 31st March 2006, the Company's reserve available for distribution amounted to HK\$49,658,000 (2005: HK\$83,333,000).



# DIRECTORS' REPORT

## DIRECTORS

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

### Executive Directors:

Mr. Kao Cheung Chong, Michael (*Chairman*)

Mr. Kao Wai Ho, Francis (*Deputy Chairman and Chief Executive Officer*)

Mr. Tse Chi Man, Terry

Mr. Yip Kar Hang, Raymond (appointed on 22nd August 2005)

### Non-executive Director:

Mr. Lam Pak Kin, Philip (re-designated from Executive Director to Non-executive Director on 16th June 2005)

### Independent Non-executive Directors:

Mr. Lai Chi Kin, Lawrence

Mr. Ng See Yuen

Mr. Oh Kok Chi

In accordance with Article 87 of the Company's Bye-laws, Mr. Kao Cheung Chong, Michael, Mr. Tse Chi Man, Terry, Mr. Yip Kar Hang, Raymond and Mr. Lam Pak Kin, Philip shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 86(2) of the Company's Bye-laws, Mr. Yip Kar Hang, Raymond, who was appointed as a Director by the Board, will hold office until the forthcoming annual general meeting. He, being eligible, offers himself for re-election.

The term of office for each Non-executive Director and Independent Non-executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

## DIRECTORS' SERVICE CONTRACTS

An Executive Director of the Company has entered into a service contract with the Company for an initial term of three years commencing 6th August 2004 and ending on 30th June 2006 and his appointment shall continue thereafter, subject to termination by either party giving at least three months' prior notice to the other party.

Another Executive Director of the Company has entered into a service contract with the Company for an initial term commencing 1st March 2005 and ending on 28th February 2008, subject to termination by either party giving not less than six months' prior written notice at any renewed term after the initial term.

Other than the Executive Directors whose contracts are described above, no Director proposed for re-election at the forthcoming annual general meeting as a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.



# DIRECTORS' REPORT

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES

At 31st March 2006, the interests of the Directors and the Chief Executives and their associates in the shares, underlying shares and convertible notes 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 (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 Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long position

(A) Ordinary shares of HK\$0.50 each of the Company

Name of Directors	Number of issued ordinary shares held			Total interest	Percentage of issued share capital
	Personal interest	Corporate interest	Other interest		
Mr. Kao Cheung Chong, Michael	5,583,000	1,874,604 <i>(note i)</i>	119,563,298 <i>(note ii)</i>	127,020,902	52.04%
Mr. Kao Wai Ho, Francis	194,400	1,230,000 <i>(note iii)</i>	119,563,298 <i>(note ii)</i>	120,987,698	49.57%
Mr. Lam Pak Kin, Philip	406,800	–	–	406,800	0.17%
Mr. Lai Chi Kin, Lawrence	72,300	–	–	72,300	0.03%

### Notes:

- (i) These shares are held by Kessuda Consultants Limited whose entire issued share capital is beneficially owned by Mr. Kao Cheung Chong, Michael.
- (ii) 2,439,597 shares of the Company are beneficially owned by Happy Nation Limited, whose entire issued share capital is beneficially owned by China Link Holding Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for The Cheerco Trust, of which Mr. Kao Cheung Chong, Michael and his family members, including Mr. Kao Wai Ho, Francis, are discretionary objects. The remaining 117,123,701 shares which represent 47.99% of issued share capital of the Company, are beneficially owned by Sunni International Limited, 54.67% of whose issued share capital is beneficially owned by Happy Nation Limited.
- (iii) These shares are held by Asia Pacific Glory Limited whose entire issued share capital is beneficially owned by Mr. Kao Wai Ho, Francis.



# DIRECTORS' REPORT

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES *(Continued)*

Long position *(Continued)*

(B) *Share options of the Company*

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Kao Cheung Chong, Michael	Beneficial owner	1,800,000	1,800,000
Mr. Kao Wai Ho, Francis	Beneficial owner	1,800,000	1,800,000
Mr. Tse Chi Man, Terry	Beneficial owner	1,800,000	1,800,000
Mr. Yip Kar Hang, Raymond	Beneficial owner	1,300,000	1,300,000

(C) *Interests in associated corporations*

Name of Directors	Name of associated corporations	Class of shares	Number of shares held (personal interest)	Percentage of issued share capital
Mr. Kao Cheung Chong, Michael	Boto International Holdings Limited	Ordinary shares of US\$1 each	7,705	6.93%
	Sunni International Limited	Ordinary shares of US\$1 each	5,637	54.67%
Mr. Lam Pak Kin, Philip	Boto International Holdings Limited	Ordinary shares of US\$1 each	1,053	0.95%
	Sunni International Limited	Ordinary shares of US\$1 each	310	3.00%

(D) *Convertible notes of the Company*

Name of Director	Capacity	Amount of convertible notes held	Number of underlying shares
Mr. Kao Cheung Chong, Michael	Beneficial owner	HK\$20,000,000	11,904,761

Other than as disclosed above and the interests in certain non-voting 5% deferred shares in a subsidiary of the Company referred to in note 38 to the consolidated financial statements, none of the Directors, or chief executives nor their associates had any interests or short position in any shares or underlying shares of the Company or any of its associated corporations at 31st March 2006.



# DIRECTORS' REPORT

## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 30 to the consolidated financial statements.

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

	Date of grant	Exercisable period	Exercise price per share prior to rights issue HK\$	Exercise price per share after adjustment for the effect of rights issue HK\$ (note)	Number of share options				At 31st March 2006
					At 1st April 2005	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	
Category 1: Directors									
Mr. Kao Cheung Chong, Michael	13th February 2006	13th February 2006 to 12th February 2009	-	2.675	-	1,800,000	-	-	1,800,000
Mr. Kao Wai Ho, Francis	13th February 2006	13th February 2006 to 12th February 2009	-	2.675	-	1,800,000	-	-	1,800,000
Mr. Tse Chi Man, Terry	19th April 2004	19th April 2004 to 18th April 2009	-	1.500	1,300,000	-	-	-	1,300,000
	27th July 2005	27th July 2005 to 26th July 2010	-	1.000	-	2,000,000	(1,500,000)	-	500,000
Mr. Yip Kar Hang, Raymond	24th May 2005	24th May 2005 to 23rd May 2010	-	0.980	-	2,300,000	(1,000,000)	-	1,300,000
					1,300,000	7,900,000	(2,500,000)	-	6,700,000
Category 2: Employees									
	11th February 2003	11th February 2003 to 10th February 2006	1.060(i)	0.945	2,070,000	-	(1,820,000)	(250,000)	-
	11th February 2003	11th February 2003 to 10th February 2008	1.060(i)	0.945	150,000	-	(90,000)	(60,000)	-
	13th August 2003	13th August 2003 to 12th August 2006	1.246(ii)	1.111	6,270,000	-	(2,944,000)	(570,000)	2,756,000
	19th April 2004	19th April 2004 to 18th April 2009	-	1.500	1,600,000	-	(100,000)	(1,300,000)	200,000
	24th May 2005	24th May 2005 to 23rd May 2010	-	0.980	-	14,200,000	(2,600,000)	(5,100,000)	6,500,000
	7th June 2005	7th June 2005 to 6th June 2010	-	0.974	-	2,000,000	-	-	2,000,000
	13th February 2006	13th February 2006 to 12th February 2011	-	2.675	-	1,500,000	(100,000)	-	1,400,000
					10,090,000	17,700,000	(7,654,000)	(7,280,000)	12,856,000
Total					11,390,000	25,600,000	(10,154,000)	(7,280,000)	19,556,000

Note: Exercise price per share has been adjusted for the effect of the rights issue that took place on 6th May 2004, where appropriate, as follows:

- (i) from HK\$1.060 to HK\$0.945; or
- (ii) from HK\$1.246 to HK\$1.111



# DIRECTORS' REPORT

## SHARE OPTIONS *(Continued)*

There are no vesting periods for the share options disclosed above. The closing prices of the Company's shares immediately before 24th May 2005, 7th June 2005, 27th July 2005 and 13th February 2006, the dates of grant of the options, were HK\$0.97, HK\$0.99, HK\$1.00 and HK\$2.725 respectively. The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK\$6.03.

Subsequent to 31st March 2006, share options were granted by the Company to a film director as follows:

Date of grant	Vesting period	Exercisable period	Exercise price per share	Number of share options granted
25th May 2006	25th May 2006 to 24th May 2007	25th May 2007 to 24th May 2009	HK\$8.81	1,000,000

The closing market price per share at the date preceding the date on which the share options were granted was HK\$8.65.

## CONNECTED TRANSACTIONS

On 8th November 2005, the Company entered into a subscription agreement with Mr. Kao Cheung Chong, Michael ("Mr. Kao"), Chairman and an Executive Director of the Company, pursuant to which the Company agreed to issue and Mr. Kao agreed to subscribe for convertible note in an aggregate principal amount of HK\$20,000,000.

The convertible note is convertible into ordinary shares with nominal value of HK\$0.50 each in the capital of the Company upon conversion of the convertible note at the conversion price, which initially is equal to HK\$1.68 per conversion share (subject to adjustments). As Mr. Kao is a connected person of the Company, the transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, details of which were set out in the Company's announcement and circular dated 10th November 2005 and 1st December 2005, respectively.

The Independent Non-executive Directors have confirmed that the transaction has been entered into by the Company in the ordinary course of its business, on terms no less favourable than terms available to/from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The transaction was subject to approval from shareholders other than Mr. Kao and his associates by way of poll at the special general meeting convened on 20th December 2005 and the resolution was duly passed on that date.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings and convertible notes as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangement to enable the Directors or Chief Executives 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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 36 to the consolidated financial statements, no contracts of significance to which the Company, its holding 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, subsisted at end of the year or at any time during the year.



# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS

At 31st March 2006, other than as disclosed in the section "Directors' and Chief Executives' Interests in Shares, Underlying Shares and Convertible Notes", the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and long position in the issued share capital of the Company.

Ordinary shares of HK\$0.50 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital
Mr. Hung Kam Biu, Kenneth ("Mr. Hung")	Beneficial owner	9,436,000	3.87%
	Interest of controlled corporation ( <i>note i</i> )	29,834,000	12.22%
Trophy Asset Management Limited ("Trophy Asset")	Beneficial owner ( <i>note i</i> )	29,834,000	12.22%

Note:

- (i) 29,834,000 shares of the Company are beneficially owned by Trophy Asset, whose entire issued share capital is beneficially owned by Mr. Hung.

Convertible notes of the Company

Name of shareholders	Capacity	Number of underlying shares ( <i>note i</i> )
Goodyear Group Limited ("Goodyear")	Beneficial owner ( <i>note ii</i> )	28,571,429
Trophy Fund	Interest of controlled corporation ( <i>note ii</i> )	28,571,429
Trophy Asset	Beneficial owner	1,190,476
	Interest of controlled corporation ( <i>note ii</i> )	28,571,429
Winnington Capital Limited ("Winnington")	Investment manager ( <i>note ii</i> )	28,571,429
Mr. Hung	Interest of controlled corporation ( <i>note ii</i> )	29,761,905
Ms. Chu Jocelyn ("Ms. Chu")	Interest of controlled corporation ( <i>note ii</i> )	28,571,429



# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS *(Continued)*

### Convertible notes of the Company *(Continued)*

Notes:

- (i) The underlying shares represented the new shares to be issued upon full conversion of HK\$50,000,000 3% unsecured convertible notes due 2008 (the "Subscription Convertible Notes") held by respective holders of the convertible notes at a conversion price of HK\$1.68 per share issued by the Company on 8th November 2005.
- (ii) Goodyear beneficially owns HK\$48,000,000 Subscription Convertible Notes. Goodyear is wholly-owned by Trophy Fund which in turn is wholly-owned by Trophy Asset. Trophy Asset is wholly-owned by Mr. Hung who beneficially owns an additional HK\$2,000,000 Subscription Convertible Notes. Trophy Fund is managed by Winnington, an investment manager which is 50% owned by each of Mr. Hung and Ms. Chu. Accordingly, Trophy Fund, Trophy Asset and Winnington are deemed to be interested in HK\$48,000,000 Subscription Convertible Notes. Mr. Hung and Ms. Chu are deemed to be interest in HK\$26,000,000 and HK\$24,000,000 Subscription Convertible Notes, respectively.

## 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 the Independent Non-executive Directors are independent.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March 2006, sales attributable to the largest and the five largest customers accounted for 92.8% (2005: 74.3%) and 100% (2005: 100%) of the total turnover respectively. Due to the nature of the Group's business, no supply of raw materials or finished products is required for carrying out the Group's business and no supplier is therefore required to be disclosed.

Other than as disclosed in note 36 to the consolidated financial statements, none of the Directors, their respective associates (as defined in the Listing Rules), or any shareholder of the Company (who or which, to the knowledge of the Directors, own more than 5 per cent of the issued share capital of the Company) has any interest in any of the Group's five largest customers and suppliers.

## EMOLUMENT POLICY

Remuneration policy is reviewed regularly by the Board to ensure that compensation and benefit packages are in line with the market in respective countries where the Group has operations. In addition to basic salary, incentives in the form of bonuses and share options may also be offered to eligible employees on the basis of individual performance and at the discretion of the Board.

The emoluments of the Directors of the Company are recommended by the Remuneration Committee and decided by the Board, as authorised by shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme are set out in note 30 to the consolidated financial statements.





# DIRECTORS' REPORT

## 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.

## CORPORATE GOVERNANCE

The Company is committed to maintain good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency. The corporate governance principles and practices adopted by the Company are set out in the Corporate Governance Report on page 15 to 23 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st March 2006.

## DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$64,000.

## POST BALANCE SHEET EVENT

Subsequent to 31st March 2006, the Directors resolved to cease the Group's management consultancy services operation.

## AUDITORS

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

On behalf of the Board

**Kao Wai Ho, Francis**

*Deputy Chairman and Chief Executive Officer*

Hong Kong, 19th July 2006