

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The Company continued to be an investment holding company. The principal activities of its subsidiaries continued to be property investment, property trading, provision of property management and related services and investment holding. Details of these activities are set out in note 34 to the financial statements.

Over 50% of the Group's revenue for the year was derived from its property rental business in Hong Kong. An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 28.

The directors recommend the payment of a final dividend of HK3.0 cents per share for the year ended 31 December 2006 which makes a total distribution of approximately HK\$24.0 million for the year ended 31 December 2006 (2005: HK\$20.0 million).

Subject to the shareholders' approval of the proposed final dividend at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 18 May 2007 to shareholders registered on 11 May 2007. The member register and transfer books of the Company will be closed from 9 May 2007 to 11 May 2007, both days inclusive, in order to determine the proposed dividend entitlements.

### PROPERTY, PLANT AND EQUIPMENT

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

### PRINCIPAL PROPERTIES

Details of the principal properties held by the Group are set out on page 85.

### SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 34 to the financial statements.

### ASSOCIATES

Particulars of the Group's interest in an associate are set out in note 17 to the financial statements.

### RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 30 and 31 and note 27 to the financial statements, respectively.

### DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Act (1981) of Bermuda (as amended), amounted to HK\$1,665.0 million (2005: HK\$1,572.0 million), of which HK\$24.0 million (2005: HK\$20.0 million) has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$95.7 million (2005: HK\$95.7 million) may be distributed in the form of fully paid bonus shares.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK\$1.5 million.

### BANK LOANS

The Group's bank loans, which comprise term loans and revolving credit facilities, are secured by certain properties held by the Group. An analysis of these borrowings is set out in note 24 to the financial statements. No interest was capitalised during the year.

### FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of assets and liabilities of the Group for the last five financial years is set out on page 86. This summary does not form part of the audited financial statements.

### MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and revenue for the year attributable to the Group's major suppliers and customers, respectively, are as follows:

	2006	2005
	%	%
Purchases		
– the largest supplier	14	18
– the five largest suppliers combined	53	50
Revenue		
– the largest customer	25	15
– the five largest customers combined	51	48

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the suppliers or customers noted above.

## REPORT OF THE DIRECTORS

### DIRECTORS

The directors serving for the year and up to the date of this report are listed on page 2.

In accordance with bye-law 87 of the bye-laws of the Company, Mr. Cheung Chung Kiu, Ms. Tung Wai Lan, Iris and Mr. Lee Ka Sze, Carmelo retire from the board by rotation this year and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

None of the directors of the Company is interested in any business that competes or is likely to compete, either directly or indirectly, with the Company's business.

The Company has received from each of its independent non-executive directors an annual confirmation of his independence and it still considers them to be independent.

### EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the director's emoluments and those of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements respectively.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The register kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") shows, as at 31 December 2006, the following interests of the directors in the shares of the Company or an associated corporation (within the meaning of Part XV of the SFO):

#### (a) Interests in the Company

Name	Capacity	No. of shares	Approximate % of shareholding
Cheung Chung Kiu	Interest of controlled corporation	273,000,000 (Note 1)	34.14%
Wong Chi Keung	Beneficial owner	2,000,000	0.25%
Ng Kwok Fu	Beneficial owner & interest of spouse	90,000 (Note 2)	0.01%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(b) Interests in The Cross-Harbour (Holdings) Limited (associated corporation)

Name	Capacity	No. of shares	Approximate % of shareholding
Cheung Chung Kiu	Interest of controlled corporation	148,254,432 <i>(Note 3)</i>	41.94%

Notes:

- (1) Mr. Cheung Chung Kiu ("Mr. Cheung") was deemed to be interested in 273,000,000 shares in the Company by virtue of his indirect shareholding interest in Funrise Limited ("Funrise") which owned these shares. Funrise was a wholly owned subsidiary of Yugang International (B.V.I.) Limited ("Yugang BVI") which was, in turn, a wholly owned subsidiary of Yugang International Limited ("Yugang"). Mr. Cheung, Timmex Investment Limited (a company wholly owned by Mr. Cheung) and Chongqing Industrial Limited ("Chongqing Industrial") owned approximately 0.59%, 6.22% and 35.44% of the issued share capital of Yugang respectively. Chongqing Industrial was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited (a company owned by Mr. Cheung and his associates), as to 30% by Peking Palace Limited ("Peking Palace") and as to 5% by Miraculous Services Limited ("Miraculous Services"). Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.
- (2) Of these 90,000 shares in the Company, 50,000 shares were held in the capacity of beneficial owner and 40,000 shares were held in the capacity of spouse's interest.
- (3) Honway Holdings Limited ("Honway", an indirect wholly owned subsidiary of the Company) held 148,254,432 shares in The Cross-Harbour (Holdings) Limited ("Cross-Harbour"). Of these 148,254,432 shares, 52,647,059 shares were acquired by Honway on 22 May 2006 by way of exercise of the remainder of the option granted by Cross-Harbour to it pursuant to the share option agreement dated 9 May 2003 at the then prevailing exercise price of HK\$4.00 per share. Mr. Cheung was deemed to be interested in these shares held by Honway by virtue of his deemed interest in the shares of the Company as described in note (1) above.

All the interests disclosed above represent long positions in the shares of the Company or Cross-Harbour.

Save as disclosed herein, as at 31 December 2006, there was no interest recorded in the register kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Code for Securities Transactions by Directors adopted by the Company on 1 January 2005.

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME

On 29 April 2005, the Company adopted a share option scheme (the "Scheme"), the terms of which are in line with the provisions of Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") as published by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the adoption of the Scheme are given in the Company's circular dated 13 April 2005 (the "Scheme Circular").

A summary of the Scheme is set out below.

1. Purpose : To provide the Group with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to, the participants
2. Participants : Any director (or any person proposed to be appointed as such, whether executive or non-executive), officer and employee (whether full-time or part-time) of each member of the Eligible Group (as defined in the Scheme Circular); any business consultant, professional and other advisers (in the areas of legal, technical, financial or corporate managerial) (including any executive, officer and employee of such business consultant, professional and other advisers) to each member of the Eligible Group (or persons proposed to be appointed as such) who has rendered service or will render service to the Group, as absolutely determined by the board
3. Total number of shares available for issue (% of issued share capital as at 23 March 2007) : 79,955,741 shares (10%)
4. Maximum entitlement of each participant : 1% of the total number of shares in issue in any 12-month period
5. Period within which the shares must be taken up under an option : To be determined by the board at its absolute discretion, such period to expire not later than ten years from the date of grant of option
6. Minimum period for which an option must be held before exercise : Nil (except for the achievement of any performance target(s) which may be imposed by the board on the grantee before an option can be exercised)
7. Amount payable on application or acceptance of the option : HK\$1.00

### SHARE OPTION SCHEME *(continued)*

8. Basis of determining the exercise price : The exercise price shall be a price solely determined by the board, such price being no less than the highest of:
- (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date;
  - (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and
  - (c) the nominal value of a share
9. Remaining life : Until 28 April 2015

During the year, no option lapsed and no option was granted, exercised or cancelled; nor was there any option outstanding under the Scheme at the beginning and at the end of the year.

### DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Save for the Scheme noted above, at no time during the year was the Company or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangement whose objects are, or one of whose objects is, to enable the directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Mr. Lee Ka Sze, Carmelo, is a partner in Messrs. Woo, Kwan, Lee & Lo and as such has an interest in the normal remuneration paid by the Company to that firm for the services rendered to the Company during the year.

## REPORT OF THE DIRECTORS

### INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

As at 31 December 2006, so far as is known to the directors of the Company, the following persons, other than the directors, had, or were deemed to have, interests in the shares of the Company as recorded in the register kept under section 336 of the SFO:

Name	Capacity	No. of shares	Approximate % of shareholding
Palin Holdings Limited	Interest of controlled corporation	273,000,000 (Note 1)	34.14%
Chongqing Industrial Yugang	Interest of controlled corporation	273,000,000 (Note 1)	34.14%
Yugang BVI	Interest of controlled corporation	273,000,000 (Note 1)	34.14%
Funrise	Beneficial owner	273,000,000 (Note 1)	34.14%
Deutsche Bank Aktiengesellschaft	Beneficial owner & security interest	136,163,692 (Note 2)	17.03%
PMA Capital Management Limited (Note 3)	Investment manager	95,950,000	12.00%
PMA Prospect Fund (Note 3)	Beneficial owner	40,469,000	5.06%
QVT Financial GP LLC (Note 4)	Interest of controlled corporation	40,664,000	5.08%
QVT Financial LP (Note 4)	Investment manager	40,664,000	5.08%

Notes:

- (1) Each parcel of 273,000,000 shares represents the same shareholding interest of Funrise and is duplicated in Mr. Cheung's interest in the Company's shares as set out on page 21.
- (2) Of these 136,163,692 shares, 6,990,802 shares were held in the capacity of beneficial owner and 129,172,890 shares were held in the capacity of person having a security interest in shares.
- (3) PMA Capital Management Limited owned 100% of PMA Prospect Fund.
- (4) QVT Financial GP LLC owned 1% of QVT Financial LP. QVT Financial LP is accustomed or obliged to act in accordance with the directions or instructions of QVT Financial GP LLC.

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed herein, there was no person known to the directors of the Company, who, as at 31 December 2006, had, or was deemed to have, any interest or short position in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO, other than as disclosed on page 20.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company maintained throughout the year the prescribed amount of public float under the Listing Rules.

### PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company during the year.

### PRE-EMPTIVE RIGHTS

There are no statutory pre-emptive provisions under the laws of Bermuda, nor are there any provisions for pre-emptive rights contained in the Company's bye-laws.

### AUDITORS

The financial statements for the year have been audited by Ernst & Young, Certified Public Accountants, who retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

**Cheung Chung Kiu**  
*Chairman*

Hong Kong, 23 March 2007