

## Report of the Directors

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The directors present their report and 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 Company's subsidiaries are set out in note 38 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 Group at that date are set out in the financial statements on pages 28 to 88.

The directors now recommend the payment of a final dividend of HK\$0.02 per share to the shareholders on the register of members on 8 May 2006, estimated to be HK\$24,596,000, and the retention of the remaining profit in reserves.

### FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in notes 14 to 16 to the financial statements.

### SHARE CAPITAL

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

### RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

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### DISTRIBUTABLE RESERVES

As at 31 December 2005, the retained profits of the Company available for cash distribution and/or distribution in specie as computed in accordance with the Companies Law of the Cayman Islands amounted to HK\$33,210,642. Further the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. As at 31 December 2005, the Company's share premium account amounted to HK\$398,021,407.

### MAJOR CUSTOMERS AND SUPPLIERS

Due to the nature of the Group's business, no major suppliers were identified. During the year, less than 30% of the Group's turnover were attributable to the Group's five largest customers.

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 customer and supplier during the period.

### DIRECTORS

The directors of the Company during the year were:

#### Executive directors

Mr. Yeung Kwok Kwong (*Chairman*)

Ms. Wong Yuk Ching

Mr. Lam Chi Chung, Tommy (*appointed on 3 October 2005*)

#### Non-executive director

Mr. Lai Ka Fai

#### Independent non-executive directors

Mr. Anthony Francis Martin Conway

Mr. Siu Leung Yau

Mr. Liu Kwong Sang

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### DIRECTORS (continued)

In accordance with articles 108(A) and (B) and 112 of the Company's articles of association, Mr. Anthony Francis Martin Conway and Mr. Lam Chi Chung Tommy will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the non-executive director and independent non-executive directors, but excluding the Chairman, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

### DIRECTORS' SERVICE CONTRACTS

No directors 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.

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

At 31 December 2005, the interests and short positions of the directors and chief executive in the share capital 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 Companies, were as follows:

#### Long positions in ordinary shares of the Company

Name of director	Capacity and nature of interests	Number of shares held	Percentage of the Company's issued share capital
Mr. Yeung Kwok Kwong	Beneficiary owner	1,600,000	0.13%
Ms. Wong Yuk Ching	Beneficiary owner	6,000,000	0.49%
Mr. Lai Ka Fai	Beneficiary owner	300,000	0.02%

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### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Long positions in ordinary shares of the associated corporations

— Kowloon Development Company Limited

Name of director	Capacity and nature of interests	Number of shares held	Percentage of the company's issued share capital
Mr. Yeung Kwok Kwong	Beneficiary owner	100,000	0.02%
Ms. Wong Yuk Ching	Beneficiary owner	949,000	0.17%
Mr. Lai Ka Fai	Beneficiary owner	282,000	0.05%

Save as disclosed above, as at 31 December 2005, none of the directors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that were 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 Companies.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

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### 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

### SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option schemes are set out in note 30 to the financial statements.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

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

Name	Capacity and nature of interest	Number of ordinary shares held	%	Number of underlying shares held	%	Total	%
<b>Long positions</b>							
HSBC International Trustee Limited (Note)	Trustee	698,975,374	56.84%	250,734,005	20.38%	949,709,379	77.22%
The Or Family Trustee Limited Inc. (Note)	Through controlled corporation	698,975,374	56.84%	250,734,005	20.38%	949,709,379	77.22%
Kowloon Development Company Limited (Note)	Through controlled corporation	698,975,374	56.84%	250,734,005	20.38%	949,709,379	77.22%

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### **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES** *(continued)*

*Note:* Marble King International Limited, a wholly owned subsidiary of Kowloon Development Company Limited, owns 698,975,374 ordinary shares, which represents 56.84% of the issued ordinary shares of the Company as at 31 December 2005 and 3,703,590,076 non-voting redeemable convertible preference shares in the Company which, upon fully paid up, may be converted into 250,734,005 ordinary shares in the Company, representing 20.38% of the issued ordinary shares of the Company as at 31 December 2005. HSBC International Trustee Limited owns 62.25% of the issued ordinary shares of Kowloon Development Company Limited through The Or Family Trustee Limited Inc..

As at 31 December 2005, the entire 3,703,590,076 non-voting redeemable convertible preference shares in the Company is partly paid as to 10% of the subscription price of HK\$0.02 per share.

Save as disclosed above, no person 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.

### **EMPLOYEES**

As at 31 December 2005, the total number of employees of the Group was about 70. The Group remunerates its employees by means of salary and bonus based on their performance, working experience, degree of hardship and prevailing market practice. The emolument policy of the Group is reviewed by the members of the Remuneration Committee and approved by the Board.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company'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 is set out in note 30 to the financial statements.

### **SUFFICIENCY OF PUBLIC FLOAT**

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

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### PRE-EMPTIVE RIGHTS

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

### CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$10,000.

### FINANCIAL ASSISTANCES TO AFFILIATED COMPANIES

At as 31 December 2005, the Group had the following financial assistances to its affiliated companies:

	<i>HK\$'000</i>
South Bay Centre Company Limited	230,936
Eastford Development Limited	15,296
	<u>246,232</u>

The financial assistances to Eastford Development Limited are unsecured and interest-free cash advances with no fixed repayment terms.

The financial assistances to South Bay Centre Company Limited are unsecured and interest-free cash advances with no fixed repayment terms.

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### FINANCIAL ASSISTANCES TO AFFILIATED COMPANIES *(continued)*

The unaudited combined balance sheet of affiliated companies of the Group as at 31 December 2005 is as follows:

	<i>HK\$'000</i>
Non-current assets	1,444,855
Current assets	789
Current liabilities	(489,054)
Non-current liabilities	<u>(167,630)</u>
Shareholders' funds	<u>788,960</u>
Interest attributable to the Group	<u>394,481</u>

### AUDITORS

For the past three years, Messrs. Ernst & Young acted as auditors of the Company for the two financial years ended 30 November 2002 and 2003 and Messrs. Deloitte Touche Tohmatsu has been appointed as auditors of the Company since the financial period ended 31 December 2004. Messrs. Deloitte Touche Tohmatsu will retire at the forthcoming annual general meeting and a resolution for the reappointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

**Yeung Kwok Kwong**

*Chairman*

Hong Kong

30 March 2006