
REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 March 2006.

PRINCIPAL ACTIVITIES AND TRADING OPERATIONS

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on page 79.

An analysis of the principal activities and geographical locations of trading operations of the Company and its subsidiaries during the financial year is set out in Note 1 to the Financial Statements on pages 36 and 37.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended 31 March 2006 are set out in the Consolidated Profit and Loss Account on page 28.

Appropriations of profits and movements in reserves during the financial year are set out in Note 26 to the Financial Statements on pages 59 and 60.

DIVIDENDS

An interim dividend of 2.0 cents per share was paid on 30 December 2005. The Directors have now recommended for adoption at the Annual General Meeting to be held on Monday, 21 August 2006 the payment on 28 August 2006 to Shareholders on record as at 21 August 2006 of a final dividend of 7.0 cents per share in respect of the financial year ended 31 March 2006. This recommendation has been disclosed in the Financial Statements.

FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 12 to the Financial Statements on page 48.

DONATIONS

The Group made donations during the financial year totalling HK\$1.2 million.

DIRECTORS

The Directors of the Company during the financial year were Dr. J. M. K. Chow, Mr. H. L. F. Lau, Mr. D. J. Lawrence (resigned on 1 January 2006), Mr. G. W. J. Li, Mr. D. T. C. Lie-A-Cheong, Mr. T. Y. Ng, Mr. P. Y. C. Tsui, Mr. R. K. Y. Wong (appointed on 1 March 2006) and Mr. G. S. Yee.

Subsequent to the financial year end, Mr. P. K. C. Woo was appointed an additional Director and elected as the Chairman of the Company in place of Mr. G. W. J. Li, who remains as a Director of the Company, with effect from 26 May 2006.

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Messrs. P. K. C. Woo and R. K. Y. Wong, being appointed as Directors of the Company after the last Annual General Meeting, are due to retire from the Board in accordance with Article 94 of the Company's Articles of Association, and Messrs. G. W. J. Li and G. S. Yee are also due to retire from the Board by rotation in accordance with Article 103(A), at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

INTERESTS IN CONTRACTS

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

MANAGEMENT CONTRACTS

There was in existence during the financial year an agreement dated 31 March 1992 between the Company and Wheelock Corporate Services Limited ("WCSL"), whereby WCSL were appointed the General Managers of the Company. The said appointment has become effective since 31 March 1992 and shall continue in force until it is terminated by WCSL by the giving of six months' prior notice in writing. Messrs. P. Y. C. Tsui and T. Y. Ng are directors of WCSL and are accordingly regarded as interested in the said agreement.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board
Wilson W. S. Chan
Secretary

Hong Kong, 12 June 2006

SUPPLEMENTARY CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Managers

(I) Directors

Peter K. C. WOO, *GBS, JP, Chairman* (Age: 59)

Mr. Woo has resumed the role of Chairman of the Company since 26 May 2006 after having formerly served as the Company's Chairman during the period from 16 March 1985 to 10 January 1990. He also serves as a member and the chairman of the Company's Remuneration Committee. He is the chairman and a substantial shareholder of the Company's parent company, namely, Wheelock and Company Limited ("Wheelock") and also the chairman of The Wharf (Holdings) Limited ("Wharf") and Wheelock Properties (Singapore) Limited ("WPSL").

Mr. Woo was appointed a Justice of the Peace in 1993 and awarded the Gold Bauhinia Star in 1998 by the Hong Kong SAR Government. He has for many years been actively engaged in community and related services, both locally and in the international arena, and has held various Government appointments. He has been the Government-appointed chairman of the Hong Kong Trade Development Council since October 2000 and had served as the chairman of Hospital Authority from 1995 to 2000 and the council chairman of Hong Kong Polytechnic University from 1993 to 1997. He is currently the chairman of the Hong Kong Environment and Conservation Fund Committee set up in 1994 which he co-funded with the Government. He also served as a deputy chairman in 1991 to Prince of Wales Business Leaders Forum, and as a member of the International Advisory Council of JPMorgan Chase & Co., National Westminster Bank, Banca Nazionale del Lavoro, Elf Aquitaine of France and General Electric of America. He has received Honorary Doctorates from various universities in the USA, Australia and Hong Kong.

Joseph M. K. CHOW, *OBE, JP, Director* (Age: 65)

Dr. Chow has been a Director of the Company since 2003. He also serves as a member of the Company's Audit Committee. Dr. Chow is a professional civil and structural engineer. He is also a fellow of the Hong Kong Institution of Engineers, the Institution of Civil Engineers and the Institution of Structural Engineers. He is a member of CPPCC of Shanghai and a Hon. Senior Superintendent of the Hong Kong Auxiliary Police Force. Dr. Chow is the chairman of Joseph Chow & Partners Limited, Construction Workers Registration Authority as well as an independent non-executive director of the publicly-listed Chevalier International Holdings Limited, Build King Holdings Ltd. and PYI Corporation Ltd.

Herald L. F. LAU, *Director* (Age: 65)

Mr. Lau has been an independent Non-executive Director of the Company since 2004. He also serves as a member of the Company's Audit Committee. Mr. Lau has been practicing as a certified public accountant in Hong Kong for over 30 years and has extensive experience in auditing, finance, taxation and management. He was formerly a partner of a professional accountants firm PricewaterhouseCoopers, Hong Kong, until his retirement from the firm in June 2001. He is also an independent non-executive director of Fairwood Holdings Limited, Kerry Properties Limited and China World Trade Center Company Limited (Beijing). Mr. Lau is a fellow member of The Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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Gonzaga W. J. LI, *Director (Age: 77)*

Mr. Li has been appointed a Director of the Company since 1997. He was elected the Chairman of the Company in 1997 and stepped down as the Chairman on 26 May 2006. He is also the senior deputy chairman of Wheelock and Wharf, the chairman of Harbour Centre Development Limited (“HCDL”) and Modern Terminals Limited as well as the chief executive officer and a director of Wharf China Limited. Furthermore, he is a director of Joyce Boutique Holdings Limited (“Joyce”).

David T. C. LIE-A-CHEONG, *JP, Director (Age: 46)*

Mr. Lie has been an independent Non-executive Director of the Company since 2004. He also serves as a member of the Company’s Remuneration Committee. Mr. Lie is the executive chairman of Newpower International (Holdings) Company, Limited and China Concept Consulting Limited. He has been selected as a Member of the National Committee of the 8th, 9th and 10th Chinese People’s Political Consultative Conference since 1993. He is currently the Honorary Consul of the Hashemite Kingdom of Jordan in Hong Kong SAR, a member of the Commission on Strategic Development of Hong Kong SAR, a member of The Greater Pearl River Delta Business Council, a board member of Hospital Authority, a member of the China Overseas Friendship Association, a general committee member of the Hong Kong General Chamber of Commerce, Hong Kong Chair of Hong Kong Trade Development Council – Hong Kong/France Business Partnership. Mr. Lie is also an independent non-executive director of Herald Holdings Limited, a company whose securities are listed on the Stock Exchange.

T. Y. NG, *Director (Age: 58)*

Mr. Ng has been a Director of the Company since 1998. He is also a director of Wharf, HCDL, Joyce and Wheelock Corporate Services Limited (“WCSL”). Mr. Ng is an associate member of both HKICPA and the Chartered Institute of Management Accountants (“CIMA”).

Paul Y. C. TSUI, *Director (Age: 59)*

Mr. Tsui has been a Director of the Company since January 2005. He is also an executive director of Wheelock and a director of Joyce and WPSL. Furthermore, he is the senior deputy managing director of WCSL and a director of Myers Investments Limited (“Myers”). Mr. Tsui is a fellow member of HKICPA, The Association of Chartered Certified Accountants and CIMA.

Ricky K. Y. WONG, *Director (Age: 41)*

Mr. Wong has been a Director of the Company since 1 March 2006. He joined Wharf group in 1989. He has been in continuous employment of the Wheelock and Wharf group since 1989 and has been responsible for various property-related matters of the Wheelock and Wharf group. He is currently the property development & sales director of Wheelock Properties (Hong Kong) Limited, which is a wholly-owned subsidiary of Wheelock, and is presently responsible for overseeing the property development and related business of the Wheelock and Wharf group. Mr. Wong graduated from University of Wisconsin in the United States with a Master Degree in Business Administration.

Glenn S. YEE, *Director (Age: 55)*

Mr. Yee has been an independent Non-executive Director of the Company since 2003. He also serves as a member and the chairman of the Company’s Audit Committee and a member of the Company’s Remuneration Committee. Mr. Yee is the managing director of Pacific Can Company Limited.

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Notes:

- (1) *Wheelock, WCSL and Myers (of which Mr. P. K. C. Woo, Mr. G. W. J. Li, Mr. T. Y. Ng and/or Mr. P. Y. C. Tsui is/are director(s)) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.*
- (2) *The Company confirms that it has received written confirmation from each independent Non-executive Director confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and the Company still considers the independent Non-executive Directors to be independent.*

(II) Senior Managers

During the financial year, the senior management responsibilities of the Group were vested with the General Managers of the Company, namely, Wheelock Corporate Services Limited (as referred to in the Report of the Directors under the section headed "Management Contracts" on page 19), and none of the employees of the Group are regarded as Senior Managers.

(B) Directors' Interests in Shares

At 31 March 2006, Directors of the Company had the following personal beneficial interests, all being long positions, in the share capitals of the Company, the Company's parent company, namely, Wheelock, and an associate of Wheelock, namely, Wharf, and the percentages which the relevant shares represented to the issued share capitals of the three companies respectively are also set out below:

	No. of Ordinary Shares (percentage of issued capital)
The Company	
G. W. J. Li	2,900 (0.0001%)
Wheelock	
G. W. J. Li	1,486,491 (0.0732%)
T. Y. Ng	70,000 (0.0034%)
Wharf	
G. W. J. Li	686,549 (0.0280%)
T. Y. Ng	178,016 (0.0073%)

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Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance (the "SFO") in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Issuers:

- (i) there were no interests, both long and short positions, held as at 31 March 2006 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and
- (ii) there existed during the financial year no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial year of any such rights by any of them.

(C) Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at 31 March 2006, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

Names	No. of Ordinary Shares (percentage of issued capital)
(i) Myers Investments Limited	1,536,058,277 (74.22%)
(ii) Wheelock Corporate Services Limited	1,536,058,277 (74.22%)
(iii) Wheelock and Company Limited	1,536,058,277 (74.22%)
(iv) HSBC Trustee (Guernsey) Limited	1,536,058,277 (74.22%)

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against parties (i) to (iv) above represent the same block of shares.

All the interests stated above represented long positions and as at 31 March 2006, there were no short position interests recorded in the Register.

(D) Pension Schemes

Set out below are certain particulars regarding the pension scheme operated by the Group (the "Pension Scheme") :

(I) Nature of the Pension Scheme

The Pension Scheme is a defined contribution scheme. The assets of the Pension Scheme are held separately by an independently administered fund.

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(II) Funding of the Pension Scheme

The Pension Scheme is funded by contributions from employees and employers. The employees and employers contribute respectively to the Pension Scheme sums which represent percentages of their salaries as defined under the relevant trust deed.

(III) Forfeited Contributions

The contributions are expensed as incurred and may be reduced by contributions forfeited by those employees who have left the Pension Scheme prior to vesting fully in the contributions.

(IV) Cost of the Pension Scheme

The employer's cost charged to the profit and loss account during the year ended 31 March 2006 in respect of the Pension Scheme amounted to HK\$3.9 million. During the year, no forfeiture of employer's contribution was used to reduce current year's contribution.

Note: The total employers' pension cost in respect of all pension schemes of the Group, including the cost related to the various mandatory retirement schemes which are not operated by the Group, charged to the profit and loss account during the financial year ended 31 March 2006 amounted to HK\$26.6 million.

(E) Directors' Interests in Competing Business

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules.

Five Directors of the Company, namely, Messrs. P. K. C. Woo, G. W. J. Li, T. Y. Ng, P. Y. C. Tsui and R. K. Y. Wong, being also directors of the Company's parent company, namely, Wheelock, and/or certain subsidiaries of Wheelock, are considered as having an interest in Wheelock under Rule 8.10 of the Listing Rules.

The ownership of commercial premises by Wheelock group for rental purposes is considered as competing with the commercial premises owned by the Group for letting. Since the Group's commercial premises are not in close proximity to those owned by the Wheelock group and the customers and tenants for the Group's properties are somewhat different from those for the properties owned by the Wheelock group, the Group considers that its interest regarding the business of owning and letting of commercial premises is adequately safeguarded.

For safeguarding the interests of the Group, the independent Non-executive Directors and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's property leasing business is and continues to be run on the basis that it is independent of, and at arm's length from, that of the Wheelock group.

REPORT OF THE DIRECTORS

(F) Major Customers & Suppliers

For the financial year ended 31 March 2006:

- (a) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented 66% of the Group's total purchases;
- (b) the largest supplier accounted for 21% of the Group's total purchases;
- (c) none of the Directors of the Company or their associates holds, nor does any Shareholder owning (to the knowledge of the Directors) more than 5% of the Company's equity capital hold, any interests in any of the Group's five largest suppliers; and
- (d) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(G) Bank Loans, Overdrafts and Other Borrowings

Particulars of any and all bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 March 2006 which are repayable on demand or within a period not exceeding one year or after one year are set out in Note 22 to the Financial Statements on page 56.

(H) Interest Capitalised

The amount of interest capitalised by the Group during the financial year is set out in Note 5 to the Financial Statements on page 41.

(I) Purchase, Sale or Redemption of Shares

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

(J) 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 has maintained the prescribed public float under the Listing Rules throughout the financial year ended 31 March 2006.

(K) Disclosure of Connected Transactions

Set out below is information in relation to certain connected transactions involving the Company and/or its subsidiaries which were substantially disclosed in the press announcements of the Company dated 30 August 2004, 22 December 2004 and 29 June 2005 respectively and were required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

(i) Disposal of shares in i-CABLE Communications Limited

On 28 June 2005, Lynchpin Limited ("Lynchpin"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Wharf Communications Limited, a wholly-owned subsidiary of Wharf, for the disposal of 17,619,827 shares in i-CABLE Communications Limited ("i-CABLE") (representing 0.9% of the issued share capital of i-CABLE), at a consideration of HK\$45.4 million. The consideration was paid in cash and the transaction was completed on 30 June 2005.

Since the Company is a 74%-owned subsidiary of Wheelock and Wharf is a 48%-owned associate of Wheelock, the abovementioned transaction constituted a connected transaction for the Company under the Listing Rules.

The above disposal represented a good opportunity to the Group to divest itself, at a reasonable price level, of its entire interest, being only a minority interest, in i-CABLE whose principal activities are somewhat unrelated to the Group's own principal activities.

(ii) Master Services Agreement with Wheelock and Company Limited

Under various agreements previously entered into, the Company together with some of its wholly-owned subsidiaries have appointed certain subsidiaries of Wheelock for the provision by the latter of general managerial and/or administrative services, including legal, secretarial, human resources, accounting and financial and information technology services (the "General Management Services"), and property management and/or leasing and other property related services (the "Property Services") (collectively, the "Services").

On 22 December 2004, a master services agreement (the "Master Services Agreement") was entered into between the Company and Wheelock to, among other things, provide for an annual aggregate maximum amount payable by the Group for the Services provided and to govern the entry into of any further individual agreements separately between members of the Group with members of Wheelock group in respect of the provision of the Services.

As the Company is a 74%-owned subsidiary of Wheelock, the transaction constitutes a continuing connected transaction for the Company under the Listing Rules.

Under the Master Services Agreement, the aggregate amount of remuneration payable by the Group for the General Management Services will be subject to an annual cap amount of HK\$40.0 million in respect of each of the three financial years of the Company from 1 April 2004 to 31 March 2007. Furthermore, the aggregate amount of remuneration payable by the Group for the Property Services will be subject to annual cap amounts of HK\$10.0 million, HK\$11.5 million and HK\$13.2 million respectively for those three financial years.

(iii) Tenancy Agreement with Wheelock Properties (Hong Kong) Limited

On 30 August 2004, a tenancy agreement (the "Tenancy Agreement") in respect of the whole of 5th Floor, Wheelock House, 20 Pedder Street, Hong Kong for the period from 1 September 2004 to 31 August 2007 was entered into between Marnav Holdings Limited ("Marnav"), a wholly-owned subsidiary of the Company as the landlord, and Wheelock Properties (Hong Kong) Limited ("WPHK"), a wholly-owned subsidiary of Wheelock as the tenant.

As the Company is a 74%-owned subsidiary of Wheelock, the transaction constitutes a continuing connected transaction for the Company under the Listing Rules.

The rental receivable by Marnav from WPHK under the Tenancy Agreement for each of the four financial years ending 31 March 2008 would range from HK\$0.8 million to HK\$2.0 million.

With ownership of properties for letting being one of the Group's principal business activities, rental income is an important recurrent income source of the Group. The stable and satisfactory rental revenue to be generated from the tenancy under the Tenancy Agreement is therefore beneficial to the Group.

(iv) Confirmation from Directors Etc.

The Directors, including the independent Non-executive Directors, of the Company have reviewed the continuing connected transactions mentioned under Section K(ii) and K(iii) above (the "Transactions") and confirmed that the Transactions were entered into:

- (a) by the Group in the ordinary and usual course of its business;
- (b) either on normal commercial terms or, if there are not sufficient comparable transactions, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreements governing such Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Furthermore, the auditors of the Company have advised the following:

- (1) the Transactions had been approved by the Company's Board of Directors;
- (2) nothing came to the attention of the auditors of the Company that caused them to believe that the Transactions were not entered into in accordance with the terms of the related agreements governing the Transactions; or, where there was no agreement, on terms no less favourable than those for similar transactions undertaken by the Group with independent third parties where available; and
- (3) the relevant cap amounts have not been exceeded during the financial year ended 31 March 2006.