

Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries are engaged in property development and investment, hotel operations and loan financing, and treasury management. These divisions are the basis on which the Group reports its primary segment information. Other operations include sale of boiler products and other interest income.

PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the Company's principal subsidiaries, associates and jointly controlled entities at 31st March, 2006 are set out in notes 54, 55 and 19 to the financial statements, respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 41.

An interim dividend of HK3 cents per share amounting to HK\$42,926,000 was paid to the shareholders during the year. The directors recommend a final dividend for the year of HK6 cents per share to shareholders whose names appear on the Company's Register of Members on 25th August, 2006 amounting to HK\$86,500,000. The final dividend will take the form of a scrip dividend with shareholders being given an option to elect to receive cash in lieu of all or part of their scrip dividend entitlements ("Scrip Dividend Scheme").

The Scrip Dividend Scheme will be subject to (i) the approval of the proposed final dividend at the annual general meeting to be held on 25th August, 2006; and (ii) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the new shares to be allotted thereunder. For the purpose of determining the number of new shares to be allotted, the market value of new shares will be calculated as the average of the closing prices of the existing shares of the Company on the Stock Exchange for the five trading days prior to and including 25th August, 2006. Full details of the Scrip Dividend Scheme will be set out in a circular to shareholders together with a form of election on or about 1st September, 2006. Dividends warrants or new shares certificates will be posted on or about 3rd October, 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 14.

Directors' Report

28

INVESTMENT PROPERTIES

During the year, the Group disposed of investment properties with a carrying amount of HK\$10,689,000.

The Group revalued all of its investment properties at 31st March, 2006. The net increase in fair value of investment properties, which has been credited directly to income statement, amounted to HK\$414,740,000.

Details of these and other movements during the year in the investment properties of the Group are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$141,169,000 on hotel properties and hotel properties under development.

In addition, the Group transferred certain properties with carrying amount of approximately HK\$88,642,000 from property, plant and equipment to investment properties. Such properties were revalued on the date of transfer, resulting in a net surplus over the book value of approximately HK\$7,228,000, which has been credited to the asset revaluation reserve.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31st March, 2006 are set out on pages 116 to 123 of the annual report.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 40 to the financial statements.

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

DISTRIBUTABLE RESERVES OF THE COMPANY

In the opinion of the directors, the reserves of the Company which are available for distribution to shareholders at 31st March, 2006, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, amounted to approximately HK\$737,659,000 (2005: HK\$972,698,000), representing the net of the distributable reserve of HK\$932,031,000 (2005: HK\$1,045,886,000) and accumulated losses of HK\$194,372,000 (2005: HK\$73,188,000).

Directors' Report

DIRECTORS

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

Executive Directors

Mr. Deacon Te Ken Chiu, *Chairman*

Tan Sri Dato' David Chiu, *Deputy Chairman and Chief Executive Officer*

Mr. Dennis Chiu

Mr. Craig Grenfell Williams

Non-executive Directors

Madam Ching Lan Ju Chiu

Mr. Dick Tat Sang Chiu

Mr. Daniel Tat Jung Chiu

Independent Non-executive Directors

Mr. David Kwok Kwei Lo

Mr. Jian Yin Jiang

Mr. Kwok Wai Chan (appointed on 18th November, 2005)

Datuk Kee Leong Chee (retired on 19th August, 2005)

In accordance with the provisions of the Company's Articles of Association, Mr. Dick Tat Sang Chiu, Mr. Daniel Tat Jung Chiu and Mr. Kwok Wai Chan shall retire by rotation and, being eligible, offer themselves for re-election.

Under the second part of code provision A.4.2 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, every director, including those appointed for a specific term should be subject to retirement by rotation at least once every three years. The Chairman of the Company, however, is not subject to retirement by rotation. In accordance with the second part of Article 115(B) of the Articles of Association of the Company, a director appointed as an executive Chairman or as Managing Director or Joint Managing Director shall not while holding such office be subject to retirement by rotation or taken into account in determining the rotation retirement of Directors. In view of good Corporate Governance Practices, the executive Chairman voluntarily retires from his office and offers himself for re-election at the forthcoming annual general meeting of the Company notwithstanding that he is not required to do so by the Company's Article 115(B).

The term of office for each of the Non-Executive Directors is the period up to his or her retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

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

Directors' Report

30

DIRECTORS' INTERESTS IN SHARES

At 31st March, 2006, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future 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 Companies, were as follows:

(a) Directors' interests in shares and underlying shares of the Company:

Name of director	Nature of interests	Number of ordinary shares held			Beneficial interests in underlying shares	Percentage of issued share capital of the Company	
		Personal interests	Corporate interests	Total		Company	
Deacon Te Ken Chiu	Long Position	10,534,984	115,641,256 ⁽ⁱ⁾	–	126,176,240	8.76%	
David Chiu	Long Position	640,859	320,608,292 ⁽ⁱⁱ⁾	11,000,000 ⁽ⁱⁱⁱ⁾	332,249,151	23.06%	
Dennis Chiu	Long Position	8,327	5,029,711 ^(iv)	–	5,038,038	0.35%	
Ching Lan Ju Chiu	Long Position	1,314,032	–	–	1,314,032	0.09%	
Dick Tat Sang Chiu	Long Position	837,990	–	–	837,990	0.06%	
Daniel Tat Jung Chiu	Long Position	39,412	3,877,218 ^(v)	–	3,916,630	0.27%	

Notes:

- (i) These shares are held by various companies controlled by Mr. Deacon Te Ken Chiu.
- (ii) These shares are held by Sumptuous Assets Limited, a company controlled by Tan Sri Dato' David Chiu and includes the lending of 73,874,886 shares.
- (iii) These interests represent derivative interests pursuant to a derivative contract exercisable for the period from 12th April, 2005 to 12th April, 2006.
- (iv) These shares are held by Chiu Capital N.V., a company controlled by Mr. Dennis Chiu and First Level Holdings Limited, a company controlled by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu.
- (v) These shares are held by First Level Holdings Limited, a company controlled by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu and are entirely duplicated and included in the corporate interests of Mr. Dennis Chiu.

(b) Directors' interests in shares and underlying shares of associated corporation

Name of director	Nature of interests	Name of associated corporation	Number of ordinary shares held	Percentage of issued share capital of the associate corporation
Deacon Te Ken Chiu	Long Position	Kanic Property Management Limited	2	50%
David Chiu	Long Position	Oi Tak Enterprises Limited	250,000	25%

Directors' Report

DIRECTORS' INTERESTS IN SHARES *(continued)*

Save as disclosed above, none of the directors had registered an interest and short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was 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 at 31st March, 2006.

SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 28th August, 2002 (the "Share Option Scheme") for the purpose of providing incentives and rewards to employees or executive or officers of the Company or any of its subsidiaries (including executive and non-executive directors) and business consultants, agents and legal or financial advisers who will contribute or have contributed to the Company or any of its subsidiaries. Under the Share Option Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Particulars of the Company's share option scheme are set out in note 41 to the financial statements. The following table discloses movements in the Company's share options during the year:

Category of grantee	Date of grant	Exercise price HK\$	Number of options			Exercise period
			Outstanding at 1.4.2005	Exercised during the year	Outstanding at 31.3.2006	
<i>Senior management</i>						
Denny Chi Hing Chan	21.10.2004	2.075	1,200,000	(600,000)	600,000	01.11.2004 – 31.12.2010
			1,400,000	–	1,400,000	01.01.2006 – 31.12.2010
			1,600,000	–	1,600,000	01.01.2007 – 31.12.2010
			1,800,000	–	1,800,000	01.01.2008 – 31.12.2010
			2,000,000	–	2,000,000	01.01.2009 – 31.12.2010
			8,000,000	(600,000)	7,400,000	
Bill Kwai Pui Mok	21.10.2004	2.075	1,200,000	–	1,200,000	01.04.2005 – 31.12.2010
			1,400,000	–	1,400,000	01.01.2006 – 31.12.2010
			1,600,000	–	1,600,000	01.01.2007 – 31.12.2010
			1,800,000	–	1,800,000	01.01.2008 – 31.12.2010
			2,000,000	–	2,000,000	01.01.2009 – 31.12.2010
			8,000,000	–	8,000,000	

Directors' Report

32

SHARE OPTION SCHEME *(continued)*

Category of grantee	Date of grant	Exercise price HK\$	Number of options			Exercise period
			Outstanding at 1.4.2005	Exercised during the year	Outstanding at 31.3.2006	
<i>Other employees in aggregate</i>	21.10.2004	2.075	1,150,000	(650,000)	500,000	01.11.2004 – 31.12.2010
			100,000	(100,000)	–	01.01.2005 – 31.12.2010
			2,325,000	(620,000)	1,705,000	01.01.2006 – 31.12.2010
			2,975,000	–	2,975,000	01.01.2007 – 31.12.2010
			3,475,000	–	3,475,000	01.01.2008 – 31.12.2010
			3,975,000	–	3,975,000	01.01.2009 – 31.12.2010
			14,000,000	(1,370,000)	12,630,000	
		Total	30,000,000	(1,970,000)	28,030,000	

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 debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance 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, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st March 2006, the register of interests in shares or short positions required to be kept under Section 336 of the SFO showed that, other than the interests of directors as set out above, the following shareholders were interested in 5% or more of the issued share capital of the Company:

	Nature of interests	No. of ordinary shares held		% of issued share capital
Deutsche Bank Aktiengesellschaft ("DBA")	Long Position	129,191,059	(i)	8.96%
	Short Position	115,848,359	(ii)	8.04%
PMA Capital Management Limited ("PMA")	Long Position	105,898,434	(iii)	7.35%
Penta Investment Advisers Limited ("Penta")	Long Position	88,294,000	(iv)	6.13%
Value Partners Limited ("Value Partners")	Long Position	72,868,000	(v)	5.06%

Directors' Report

SUBSTANTIAL SHAREHOLDERS *(continued)*

Note:

- (i) According to the notice to the Company from DBA, as at 31st March 2006, DBA held 34,921,598 shares as a beneficial owner; 13,000,000 shares were held as an investment manager through its wholly owned subsidiaries and 81,269,461 shares were held as security interests.

The above-mentioned long position includes derivative interests in 19,303,799 underlying shares.

- (ii) 89,673,113 shares were held as a beneficial owner and 26,175,246 shares were held as security interests.
- (iii) PMA held 105,898,434 shares as an investment manager, of which 73,544,305 shares represent derivatives interests in underlying shares.
- (iv) Penta held 88,294,000 shares as an investment manager. Penta was jointly controlled by Mr. Michael William Moore and Mr. John Zwaanstra.
- (v) Value Partners held 72,868,000 shares as an investment manager. Value Partners was controlled as to 32.77% by Mr. Cheah Cheng Hye.

Save as disclosed herein, the Company has not been notified of any other person (other than a director or chief executive of the Company) who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st March 2006.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$2,415,000.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases.

The aggregate revenue attributable to the Group's five largest customers was less than 30% of total turnover.

CONFIRMATION OF INDEPENDENCE 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. The Company considers all of the Independent Non-executive Directors are independent.

Directors' Report

34

EMOLUMENT POLICY

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

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 participants, details of the scheme is set out in note 41 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 35 to 39 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Memorandum and Articles of Association of the Company and the Companies Law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITORS

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

On behalf of the Board
Tan Sri Dato' David Chiu
Deputy Chairman and Chief Executive Officer

15th July, 2006