

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31st March, 2006.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company and provides management services to its subsidiaries. Its subsidiaries are mainly engaged in property development and investment. There have been no changes in the nature of the Group's principal activities during the year. Further details of the Company's principal subsidiaries are set out in note 17 to the financial statements.

## **FINANCIAL RESULTS**

The Group's profit for the year ended 31st March, 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 105.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Liquidity and financial resources**

The total interest-bearing debts of the Group amounted to HK\$2,171 million as at 31st March, 2006 (2005: HK\$1,434 million), of which approximately 18% of the debts were due and repayable within one year. The increase was mainly due to new bank loans being drawn to partly finance the acquisition of properties.

Total cash and bank balances was HK\$447 million as at 31st March, 2006 (2005: HK\$354 million). The Group had a total of HK\$245 million committed but undrawn banking facilities at year end available for its working capital purposes.

Total shareholders' fund as at 31st March, 2006 was approximately HK\$2,055 million (2005 (restated): HK\$1,542 million). The increase was mainly due to the contribution from the current year's profit attributable to shareholders.

The gearing ratio of the Group, as measured by the net interest-bearing debts of approximately HK\$1,724 million over the total shareholders' fund of approximately HK\$2,055 million, was 84% as at 31st March, 2006 (2005: 70%).

Subsequent to the year end, the Group entered into an agreement to dispose of an investment property in Malaysia for a cash consideration of approximately HK\$142 million, completion of which is scheduled to take place before the end of 2006. In addition, the Group issued 3.5% guaranteed convertible bonds due 2011 with a principal sum of HK\$280 million at par. These events have further strengthened the financial position of the Group.

**MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)**Funding and treasury policies**

The Group adopts a prudent funding and treasury policy. Surplus funds are primarily maintained in the form of cash deposits with leading banks.

Acquisition and development of properties are financed partly by internal resources and partly by secured bank loans. Repayments of bank loans are scheduled to match asset lives and project completion dates. Borrowings are mainly denominated in Hong Kong dollars, Renminbi and Canadian dollars and bear interest at floating rates, except for the Renminbi loan facilities.

Foreign currency exposure is monitored closely by the management and hedged to the extent desirable. As at 31st March, 2006, the Group had no material exposure under foreign exchange contracts or any other hedging instruments.

**Pledge of assets**

Properties and bank balances with an aggregate carrying value of HK\$3,573 million as at 31st March, 2006 were pledged to secure certain banking facilities of the Group.

**Contingent liabilities**

Particulars of the contingent liabilities of the Group are set out in note 35 of the financial statements.

**Employees and remuneration policies**

The Group, not including its jointly-controlled entities, employed approximately 360 employees as at 31st March, 2006. Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover, provident fund, personal accident insurance and educational subsidies to all eligible staff.

**DIVIDEND**

The directors recommend the payment of a final dividend of 11 cents per ordinary share for the year ended 31st March, 2006 (2005: 8 cents per ordinary share) to shareholders whose names appear on the Company's register of members on 20th September, 2006.

**SUMMARY FINANCIAL INFORMATION**

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out on page 106. This summary does not form part of the audited financial statements.

**PROPERTY, PLANT AND EQUIPMENT**

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

**PROPERTIES UNDER DEVELOPMENT**

Details of movements in the properties under development of the Group during the year are set out in note 15 to the financial statements.

**INVESTMENT PROPERTIES**

Details of movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

**PARTICULARS OF PROPERTIES**

Particulars of the major properties held by the Group are set out on pages 107 to 110.

**RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

**DISTRIBUTABLE RESERVES**

At 31st March, 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$390,641,000. In addition to the retained profits of the Company, the Company's share premium account, in the amount of HK\$161,410,000, may be distributed in the form of fully paid bonus shares.

**DIRECTORS**

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

James Sai-Wing Wong

Madeline May-Lung Wong

Herman Man-Hei Fung

Zuric Yuen-Keung Chan

Daniel Chi-Wai Tse\*

Patrick Yen-Tse Tsai\*

Kenneth Kin-Hing Lam\*

Dennis Kwok-Wing Cheung

(appointed on 1st January, 2006)

William Chung-Yue Fan

(resigned on 31st December, 2005)

\* *Independent non-executive directors*

**DIRECTORS** (Continued)

In accordance with article 95 of the Company's articles of association, Dennis Kwok-Wing Cheung will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In accordance with article 104 of the Company's articles of association, Herman Man-Hei Fung and Daniel Chi-Wai Tse will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

**DETAILS OF RETIRING DIRECTORS TO BE RE-ELECTED****(a) Dennis Kwok-Wing Cheung**

Aged 55, was appointed as an executive director of the Company in January 2006. Mr. Cheung was not appointed for a specific term but is subject to retirement by rotation and re-election at the Company's annual general meeting.

Mr. Cheung has over 18 years experience in property development in The People's Republic of China (the "PRC"). He holds a Master's degree in Business Administration and a diploma in Chinese Law from the University of East Asia, Macau and is a member of the Certified General Accountants Association of Ontario, Canada. Mr. Cheung did not hold any directorship in other listed companies in the last three years.

At the date of this report, Mr. Cheung did not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Other than his capacity as a director of the Company and certain subsidiaries of the Group, Mr. Cheung does not have any other business relationship with any directors, senior management or substantial or controlling shareholders of the Company.

There is no service contract entered into between the Company and Mr. Cheung. However, Mr. Cheung has an employment contract with the Company. He is currently entitled to an annual salary of HK\$1,560,000 plus a discretionary bonus to be determined by the Board.

Save as disclosed above, there is no other information relating to Mr. Cheung which is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules and there is no other matter that need to be brought to the attention of the shareholders of the Company.

**DETAILS OF RETIRING DIRECTORS TO BE RE-ELECTED** (Continued)**(b) Herman Man-Hei Fung**

Aged 68, was appointed as a director of the Company in 1988 and is currently the Vice-Chairman of the Company. Mr. Fung was not appointed for a specific term but is subject to retirement by rotation and re-election at the Company's annual general meeting.

Mr. Fung has actively participated in the property investment and development business for the past 35 years and has extensive experience in finance, marketing, construction and general administration of the real estate business. Mr. Fung is also a director of Chinney Investments, Limited ("Chinney Investments") and Chinney Alliance Group Limited, which are both listed on the Stock Exchange.

At the date of this report, Mr. Fung did not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Mr. Fung is a director of Chinney Investments, Chinney Holdings Limited ("Chinney Holdings") and Lucky Year Finance Limited ("Lucky Year"), all of which are substantial shareholders of the Company. Other than his capacity as a director of the Company and certain subsidiaries of the Group and a director of Chinney Investments, Chinney Holdings and Lucky Year, Mr. Fung does not have any other business relationship with any directors, senior management or substantial or controlling shareholders of the Company.

No service contract has been signed between the Company and Mr. Fung. He is not entitled to any remuneration from the Company.

Save as disclosed above, there is no other information relating to Mr. Fung which is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules and there is no other matter that need to be brought to the attention of the shareholders of the Company.

**(c) Daniel Chi-Wai Tse**

Aged 71, was appointed as an independent non-executive director of the Company in 1993. Dr. Tse was not appointed for a specific term but is subject to retirement by rotation and re-election at the Company's annual general meeting.

Dr. Tse is the Council Chairman of the University of Macau and the Honorary Advisor of the School of Chinese Medicine of the Hong Kong Baptist University. He retired as the President and Vice-Chancellor of the Hong Kong Baptist University in June 2001. He holds a Ph.D. in Physics from the University of Pittsburgh, USA. He was appointed a Justice of the Peace for Hong Kong in 1977 and was awarded a Gold Bauhinia Star in 1998. Dr. Tse did not hold any directorship in other listed companies in the past three years.

**DETAILS OF RETIRING DIRECTORS TO BE RE-ELECTED (Continued)****(c) Daniel Chi-Wai Tse (Continued)**

At the date of this report, Dr. Tse did not have any interests in shares of the Company within the meaning of Part XV of the SFO. Other than his capacity as a director of the Company, he does not have any business relationship with any directors, senior management or substantial or controlling shareholders of the Company.

No service contract has been signed between the Company and Dr. Tse. He is entitled to a director's fee of HK\$50,000 per annum.

Save as disclosed above, there is no other information relating to Dr. Tse which is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules and there is no other matter that need to be brought to the attention of the shareholders of the Company.

**DIRECTORS AND SENIOR MANAGEMENT**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13.

**DIRECTORS' SERVICE CONTRACTS**

No director 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 other than statutory compensation.

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 31st March, 2006, the interests and short positions of the directors of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under 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 Issuers (the "Model Code"), were as follows:

**(a) Long positions in ordinary shares of the Company**

<b>Name of director</b>	<b>Note</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
James Sai-Wing Wong	1	Corporate	235,370,553	58.81
Madeline May-Lung Wong	1	Corporate	235,370,553	58.81

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

(Continued)

**(b) Long positions in ordinary shares of associated corporations**

Name of director	Notes	Name of associated corporation	Nature of interest	Number of ordinary shares held	Percentage of the associated corporation's issued share capital
James Sai-Wing Wong	2	Chinney Investments	Corporate	306,959,324	55.67
	3	Chinney Holdings	Corporate	9,900,000	99.00
		Lucky Year	Personal	100,000	1.00
Madeline May-Lung Wong	2	Chinney Investments	Corporate	306,959,324	55.67
		Chinney Holdings	Corporate	9,900,000	99.00
	3	Lucky Year	Personal	10,000	50.00
Zuric Yuen-Keung Chan		Chinney Contractors Company Limited	Personal	2,645	13.95

*Notes:*

1. These shares are beneficially held by Chinney Investments which is a subsidiary of Chinney Holdings. More than one-third of the equity capital of Chinney Holdings is owned by Lucky Year of which James Sai-Wing Wong and Madeline May-Lung Wong are directors and have beneficial interests therein.
2. These shares are beneficially held by Chinney Holdings. By virtue of note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in these shares.
3. These shares are held by Lucky Year. By virtue of note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in these shares.

Save as disclosed above, as at 31st March, 2006, none of the directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register kept by the Company under Section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**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, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**DIRECTORS' INTERESTS IN CONTRACTS**

- (a) In December 2003, Lucky Year extended the cash security arrangement in favour of the Company for a further period of 30 months. Pursuant to the arrangement, Lucky Year pledged its deposits with certain banks in relation to bank loans of HK\$150 million granted by the banks to the Company. In consideration for the provision of cash security, the Group agreed to counter-indemnify Lucky Year and pay a commission of 1.75% per annum on the average principal amount of the cash security outstanding during the terms of the bank loans to Lucky Year. The Group provides no security to Lucky Year or other connected persons in connection with the arrangement. The above facilities have been extended for a further period of 30 months upon maturity in July 2006.

Commission paid to Lucky Year during the year amounted to HK\$2,625,000 (2005: HK\$2,625,000).

- (b) Fan & Fan, Solicitors provide legal and other professional services to the Group and receive normal professional fees for such services. The total fees paid by the Group during the year amounted to approximately HK\$349,000 (2005: HK\$463,000).

James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in transaction (a) above because they are directors of and have beneficial interests in Lucky Year.

William Chung-Yue Fan is deemed to be interested in transaction (b) above by virtue of his capacity as a consultant of Fan & Fan.

Save as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

**DIRECTORS' REMUNERATION**

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

The remuneration of the directors of the Company are reviewed by the Remuneration Committee having regard to the Company's operating results, individual performance and comparable market statistics.



## MANAGEMENT CONTRACTS

The Company has entered into a management contract with Chinney Investments for the provision of general corporate management services. The contract is for an unspecified duration and may be terminated by either party by giving the other party a two-month written notice.

During the year, the Company paid a management fee of HK\$6,000,000 to Chinney Investments (2005: HK\$6,000,000). James Sai-Wing Wong, Madeline May-Lung Wong, William Chung-Yue Fan and Herman Man-Hei Fung, the directors of the Company, are also the directors of Chinney Investments.

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

As at 31st March, 2006, so far as is known to the directors of the Company, the following substantial shareholders and other persons (other than the directors of the Company) had interests or short positions of 5% or more in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Chinney Investments	Directly beneficially owned	235,370,553	58.81
Chinney Holdings	Through a controlled corporation	235,370,553	58.81
Lucky Year	Through a controlled corporation	235,370,553	58.81
DJE Investment S.A.	Directly beneficially owned	20,102,000	5.02
Dr. Jens Ehrhardt Kapital AG	Through a controlled corporation	20,102,000	5.02
Dr. Jens Alfred Karl Ehrhardt	Through a controlled corporation	20,102,000	5.02

All the interests stated above represent long positions. Chinney Investments, Chinney Holdings and Lucky Year are deemed to be interested in the same parcel of shares by virtue of Section 316 of the SFO. DJE Investment S.A., Dr. Jens Ehrhardt Kapital AG and Dr. Jens Alfred Karl Ehrhardt are deemed to be interested in the same parcel of shares by virtue of Section 316 of the SFO.

Save as disclosed herein, as at 31st March, 2006, none of the substantial shareholders or other persons (other than the directors of the Company) had registered an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

**DIRECTORS' INTERESTS IN A COMPETING BUSINESS**

During the year, Madeline May-Lung Wong was a director of HKR International Limited whose group's businesses consist of property development and property investment. In this respect, Madeline May-Lung Wong is regarded as being interested in a competing business of the Group.

Save as disclosed above, none of the directors of the Company is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

There were no purchases, sales or redemptions of the Company's shares by the Company or any of its subsidiaries during the year ended 31st March, 2006.

**CONNECTED TRANSACTIONS**

During the year, the Company and the Group had the following connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

- (a) On 24th January, 2006, a wholly-owned subsidiary of the Group, Orient States Limited ("Orient States") entered into an agreement with Shenzhen Yujianye Development Co., Ltd. for the acquisition of its 20% equity interest in Foshan Nanhai XinDa Land Development Ltd. ("Foshan Nanhai"), at a cash consideration of RMB53.6 million (equivalent to approximately HK\$51.5 million). Foshan Nanhai is a company incorporated in the PRC and was 80% owned by Orient States before the acquisition. The above transaction constituted a connected and discloseable transaction to the Company under the Listing Rules, details of which were set out in a circular to the shareholders dated 16th February, 2006.
- (b) On 16th March, 2006, a wholly-owned subsidiary of the Group, Hopmate International Development Limited ("Hopmate") entered into an agreement with Neimenggu Huaye Property Co., Ltd. for the acquisition of its 20% equity interest in Shenzhen Honkwok Huaye Development Co., Ltd. ("Honkwok Huaye"), at a cash consideration of RMB10 million (equivalent to approximately HK\$9.6 million). Honkwok Huaye is a company incorporated in the PRC and was 80% owned by Hopmate before the acquisition. The above transaction constituted a connected transaction to the Company under the Listing Rules, details of which were set out in an announcement dated 16th March, 2006. As the applicable percentage ratios as defined in the Listing Rules were less than 25% and the consideration was less than HK\$10 million, the transaction was subject only to the reporting and announcement requirements.

### **SUFFICIENCY OF PUBLIC FLOAT**

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the year under review, purchases from the Group's five largest suppliers accounted for 43% of the total purchases for the year. Purchases from the Group's largest supplier included therein totalled 19%. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

None of the directors of the Company, their associates or any shareholders (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

### **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

### **AUDITORS**

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board  
**Herman Man-Hei Fung**  
*Vice-chairman*

Hong Kong, 24th July, 2006