

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly-controlled entities are set out in notes 21, 22 and 23 to the financial statements, respectively.

RESULTS AND APPROPRIATIONS

Details of the Group's results are set out in the consolidated income statement on page 28.

The directors recommend the payment of a final dividend of 4 cents per ordinary share for the year to the shareholders whose names appear on the register of members of the Company on 20th September, 2006, amounting to approximately HK\$22,055,000.

FIVE YEAR FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the past five financial years is set out on pages 103 and 104.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The total interest-bearing debts of the Group amounted to approximately HK\$2,419 million (2005: HK\$1,713 million), of which approximately 24% of the debts were due and repayable within one year. Total cash on hand was approximately HK\$528 million (2005: HK\$455 million).

Total shareholders' fund as at 31st March, 2006 was approximately HK\$1,408 million (2005 (restated): HK\$1,150 million).

The gearing ratio of the Group, as measured by the consolidated net borrowings of approximately HK\$1,891 million over the total shareholders' fund plus minority interests of approximately HK\$2,559 million, was 74% as at 31st March, 2006. The Group's apparent high gearing is primarily due to consolidating all debts of Hon Kwok (together with its subsidiaries, the "Hon Kwok Group"), a 59% owned but separately listed subsidiary of the Group. Hon Kwok obtains financing on its own without financial assistance from the Company. Had Hon Kwok been equity accounted for as an associate in previous years, the pro forma gearing of the Group at year end would have been 7%.

The Group had a total of HK\$580 million (2005: HK\$822 million) committed but undrawn banking facilities at year end available for its working capital purpose.

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

The Group adopts a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars, Renminbi and United States dollars and bear interest at floating rates, except for the Renminbi loan facilities.

Pledge of assets

Inventories, trade debts, bank balances, properties and shares of an associate with an aggregate book value of HK\$3,013 million as at 31st March, 2006 and shares in a subsidiary 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 49 to the financial statements.

Employees and remuneration policies

The Group, not including its associates and jointly-controlled entities, employed approximately 3,600 people 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.

RESERVES

Movements in the reserves of the Company during the year are set out in note 45 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$20 million for the purposes of business expansion. Details of these and other movements in the property, plant and equipment of the Group and of the Company during the year are set out in note 17 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

Details of the movements in properties under development of the Group during the year are set out in note 18 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in note 20 to the financial statements.

PARTICULARS OF PROPERTIES

Particulars of the major properties held by the Group are set out on pages 105 to 108.

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
William Chung-Yue Fan
Herman Man-Hei Fung
Clement Kwok-Hung Young*
Johnny Chung-Ah Wong*
Peter Man-Kong Wong*

* *Independent non-executive directors*

In accordance with Article 104 of the Company's Articles of Association, Clement Kwok-Hung Young and Johnny Chung-Ah Wong retire by rotation and, being eligible, offer themselves for re-election.

No director 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).

Details of retiring directors to be re-elected

(a) Clement Kwok-Hung Young

Aged 72, was appointed as an independent non-executive director of the Company in 1999. Dr. Young 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. Young obtained his Ph.D. degree from The University of Texas, USA and served as university professor and administrator before his retirement from the Hong Kong Baptist University. He was the Supervisor of Pui Ching Middle and Primary Schools and a court member of the Hong Kong Baptist University. He is the Supervisor of Pui Ching Education Centre. Dr. Young did not hold any directorship in other listed companies in the past three years.

DIRECTORS (Continued)**Details of retiring directors to be re-elected** (Continued)

(a) Clement Kwok-Hung Young (Continued)

At the date of this report, Dr. Young did not have any interests in 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, 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. Young. 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. Young 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.

(b) Johnny Chung-Ah Wong

Aged 70, was appointed as an independent non-executive director of the Company in 2003. Mr. Wong 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. Wong is a director of Wong's International (Holdings) Limited, which is listed on the Stock Exchange. He has over 30 years experience in the electronics industry.

At the date of this report, Mr. Wong 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 Mr. Wong. 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 Mr. Wong 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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

1. The Group had the following transaction with Lucky Year, the ultimate holding company:

In December 2003, Lucky Year extended cash security arrangement in favour of Hon Kwok 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 Hon Kwok. In consideration for the provision of cash security, the Hon Kwok 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 Hon Kwok 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 June 2006.

Commission paid to Lucky Year by Hon Kwok during the year amounted to HK\$2,625,000.

James Sai-Wing Wong and Madeline May-Lung Wong are directors and shareholders of Lucky Year.

2. During the year, the Group had the following transactions with Hon Kwok:

The Company received management fee amounting to HK\$6,000,000 from Hon Kwok for the provision of administration and general services for the year ended 31st March, 2006.

James Sai-Wing Wong and Madeline May-Lung Wong are directors of and have beneficial interests in Hon Kwok through their interests in the Company. William Chung-Yue Fan and Herman Man-Hei Fung are also directors of Hon Kwok.

3. During the year, the Group had the following transactions with Chinney Alliance, an associate of the Company:

The Company received management fees amounting to HK\$2,000,000 from Chinney Alliance for the provision of administration and general services for the year ended 31st March, 2006.

James Sai-Wing Wong and Herman Man-Hei Fung are directors of Chinney Alliance. James Sai-Wing Wong and Madeline May-Lung Wong have beneficial interests in Chinney Alliance through their interests in the Company.

4. William Chung-Yue Fan is the consultant of Messrs. Fan & Fan which provides legal and professional services to the Group and receives normal professional fees for such services. Total fees amounting to approximately HK\$349,000 was paid by the Group during the year.

Save as disclosed above, no contracts of significance to which the Company, its holding companies or any of its subsidiaries and fellow 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.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2006, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(a) Directors' interest in the shares of the Company

Name of director	Note	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
James Sai-Wing Wong	1	Corporate	306,959,324	55.67
Madeline May-Lung Wong	1	Corporate	306,959,324	55.67
William Chung-Yue Fan		Personal	1,882,285	0.34

All the interests stated above represent long positions.

(b) Directors' interest in the shares of associated corporations

Name of director	Notes	Name of associated corporation	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
James Sai-Wing Wong	2	Hon Kwok	Corporate	235,370,553	58.81
	2	Chinney Alliance	Corporate	46,158,319	29.10
	3	Chinney Holdings	Corporate	9,900,000	99.00
		Chinney Holdings	Personal	100,000	1.00
		Lucky Year	Personal	10,000	50.00
Madeline May-Lung Wong	2	Hon Kwok	Corporate	235,370,553	58.81
	2	Chinney Alliance	Corporate	46,158,319	29.10
	3	Chinney Holdings	Corporate	9,900,000	99.00
		Lucky Year	Personal	10,000	50.00
William Chung-Yue Fan	4	Wise Pacific Investment Limited	Corporate	2,000	20.00

All the interests stated above represent long positions.

DIRECTORS' INTERESTS IN SECURITIES (Continued)**(c) Directors' interest in the underlying shares of associated corporation**

Pursuant to the share option scheme of Chinney Alliance, Herman Man-Hei Fung has options to subscribe for 320,000 shares in Chinney Alliance at an exercise price of HK\$1.75 per share, subject to adjustment. The options were granted on 13th July, 1999 and can be exercised up to 12th July, 2009. During the year, no share options were exercised.

Notes:

- 1. These shares are beneficially held by Chinney Holdings which is a subsidiary of Lucky Year. James Sai-Wing Wong and Madeline May-Lung Wong are directors and beneficially own more than one third of the equity capital of Lucky Year.*
- 2. These shares are beneficially held by the Company or its wholly-owned subsidiary. 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 beneficially 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.*
- 4. These shares are held by Gold Sound Enterprises Limited, of which William Chung-Yue Fan is both a director and a shareholder.*

Save as disclosed herein, as at 31st March, 2006, none of the directors of the Company had any interests or short positions 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' INTEREST IN A COMPETING BUSINESS

During the year, Madeline May-Lung Wong is 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 to be 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 business, which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

SUBSTANTIAL SHAREHOLDERS

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 directors of the Company) had interests or short positions 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	Number of ordinary shares held	Approximate percentage of shareholding
Chinney Holdings	306,959,324	55.67
Lucky Year	306,959,324	55.67

All the interests stated above represent long positions. Chinney Holdings and Lucky Year 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 any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or any of its subsidiaries or fellow 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.

PURCHASE, SALE OF REDEMPTION OF SHARES

There were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's shares 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 Hon Kwok, 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 People’s Republic of China (“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 Hon Kwok, 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.
- (c) On 24th July, 2006, the Group entered into a sale and purchase agreement to dispose the entire issued share capital of its wholly-owned subsidiaries, Gateway Group Holdings Limited and Royal Treasure Limited, together with the assignment of related shareholder’s loan for a cash consideration of HK\$8.6 million. The above transaction constituted a connected and discloseable transaction to the Company under the Listing Rules, details of which are to be set out in an announcement and a circular to the shareholders.

Gateway Group Holdings Limited is mainly engaged in garment manufacturing. Royal Treasure Limited is a property holding company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of turnover attributable to the Group’s five largest customers accounted for approximately 26% of the Group’s turnover and turnover attributable to the Group’s largest customer accounted for approximately 8% of the Group’s turnover.

The aggregate amount of purchases attributable to the Group’s five largest suppliers accounted for approximately 20% of the Group’s total purchases and purchases attributable to the Group’s largest supplier accounted for approximately 7% of the Group’s purchases.

None of the directors, their associates or any shareholders whom to the knowledge of the directors owns more than 5% of the Company's issued share capital has an interest in the Group's five largest customers and suppliers.

SUFFICIENCY OF PUBLIC FLOAT

Throughout the year ended 31st March, 2006 until 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 is held by the public.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years. A resolution will be submitted at the Annual General Meeting of the Company to re-appoint them.

On behalf of the Board
Herman Man-Hei Fung
Managing Director

Hong Kong, 24th July, 2006