

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31st March 2006.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 36 to the financial statements.

An analysis of the Group's performance for the year by segment is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 24.

The directors recommend the payment of a final dividend of HK\$0.0035 per ordinary share, totaling HK\$2,880,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 26 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

PRINCIPAL INVESTMENT PROPERTIES

Details of the movements in investment properties held by the Group are set out in note 16 to the financial statements. Details of those principal investment properties are set out on pages 93 to 94.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the financial statements.

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DISTRIBUTABLE RESERVES

At 31st March 2006, the distributable reserves of the Company amounted to HK\$192,023,000, comprising retained earnings of HK\$38,913,000 and contributed surplus of HK\$153,110,000.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus shall not be distributable if these are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 92.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTION SCHEME

A share option scheme of the Company was adopted by the shareholders of the Company in the annual general meeting held on 30th August 2004 (the "Share Option Scheme"). The principal terms are set out as follows:

(a) Purposes

The purposes of the Share Option Scheme are to attract and retain the best quality personnel for the development of the Group's businesses; to provide additional incentives to employees, consultants, agents, advisers, customers, suppliers, business and joint venture partners of the Company, its subsidiaries and its associated companies.

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SHARE OPTION SCHEME *(Continued)*

(b) Participants

On and subject to the terms of the Share Option Scheme and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the board of directors (the "Board") may offer to grant share options (the "Options") to any director and employee, consultant, agent, advisor, customer, supplier, business and joint venture partner of the Company, its subsidiaries and its associated companies ("Qualifying Grantee") as the Board may in its absolute discretion select. Provided the Board so agrees, such offer may be accepted by a related trust of the relevant Qualifying Grantee.

(c) Administration

The Share Option Scheme shall be subject to the administration of the Board. The Board's administrative powers include the authority, in its discretion:

- (i) to select Qualifying Grantees to whom Options may be granted under the Share Option Scheme;
- (ii) to determine, subject to the requirements of the Listing Rules and the law, the time of the grant of Options;
- (iii) to determine the number of Shares to be covered by each Option granted under the Share Option Scheme;
- (iv) to approve forms of option agreements;
- (v) to determine the terms of conditions of any Option. Such terms and conditions may include:
 - the exercise price;
 - the period within which the Shares must be taken up under the Option, which must not be more than 10 years from the date of grant;
 - the minimum period, if any, for which an Option must be held before it can vest (the Share Option Scheme itself does not specify any minimum holding period);
 - the performance targets, if any, that must be achieved before the Option can be exercised (the Share Option Scheme itself does not specify any performance targets);
 - the amount, if any, payable on application or acceptance of the Option and the period within which payments or calls must or may be made or loans for such purposes must be repaid;

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SHARE OPTION SCHEME *(Continued)*

(c) Administration *(Continued)*

- (vi) to construe and interpret the terms of the Share Option Scheme and Options granted pursuant to the Share Option Scheme;
- (vii) to prescribe, amend and rescind rules and regulations relating to the Share Option Scheme; and
- (viii) subject to the provisions relating to grant to substantial shareholders and independent non-executive directors and their respective associates in the Share Option Scheme, to vary the terms and conditions of any option agreement (provided that such variation is not inconsistent with the terms of the Listing Rules and the Share Option Scheme).

(d) Life of the Share Option Scheme and grant of Options

The Share Option Scheme is valid and effective for a period of 10 years from the date of adoption. On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules, the Board shall be entitled at any time within 10 years commencing on the date of adoption to make an offer for the grant of an Option to any Qualifying Grantee as the Board may in its absolute discretion select.

(e) Acceptance and payment on acceptance of Option offer

An offer of the grant of any Option shall remain open for acceptance by the Qualifying Grantee concerned and, provided the Board so agrees, by a related trust of the named Qualifying Grantee for a period of 28 days from the date of the offer (or such longer period as the Board may specify in writing).

HK\$1.00 is payable by the grantee to the Company on acceptance of the Option offer.

(f) Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option but the subscription price shall not be less than whichever is the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

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SHARE OPTION SCHEME *(Continued)*

(g) Option period

The period within which the Shares must be taken up under an Option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant Option.

(h) Maximum number of shares available under the Share Option Scheme

(i) Overriding Limit

The limit on the number of shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded.

(ii) Mandate Limit

In addition to the limit set out in sub-paragraph (h)(i) above and prior to the approval of a Refreshed Mandate Limit as referred to in sub-paragraph (h)(iii) below, the total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and any other schemes of the Company must not in aggregate exceed 77,100,000 Shares ("Initial Mandate Limit") representing 10% of the issued share capital of the Company at the date of adoption of the Share Option Scheme. Options lapsed in accordance with the terms of the Share Option Scheme or any other schemes will not be counted for the purpose of calculating the 10% limit.

(iii) Refreshing of Mandate Limit

The Company may by ordinary resolutions of the shareholders refresh the Mandate Limit provided the Company shall issue a circular containing such information as required by the Listing Rules to shareholders before such approval is sought. However, the total number of shares which may be issued upon exercise of all options to be granted under all of the schemes of the Company under the limit as refreshed ("Refreshed Mandate Limit") must not exceed 10% of the shares in issue as at the date of approval of the Refreshed Mandate Limit. Options previously granted under the schemes (including those outstanding, cancelled, lapsed in accordance with the scheme or exercised options) will not be counted for the purpose of calculating the limit as refreshed.

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SHARE OPTION SCHEME *(Continued)*

(h) **Maximum number of shares available under the Share Option Scheme** *(Continued)*

(iv) Grant to specifically identified participants

Specifically identified participants may be granted Options beyond the Mandate Limit. The Company may in addition seek separate approval by its shareholders in general meeting for granting Options beyond the Mandate Limit provided the Options in excess of the limit are granted only to participants specifically identified by the Company and a circular containing such information as required by the Listing Rules is issued to shareholders before such approval is sought. The date of board meeting for proposing such further grant should be taken as the date of grant for such grants.

(v) Limit for each participant

The total number of shares issued and to be issued upon exercise of Options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares in issue. Where any further grant of Options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant shall be subject to separate approval by shareholders in general meeting with the relevant participant and his associates abstaining from voting. Prior to seeking such approval, the Company shall issue a circular containing such information as required by the Listing Rules to shareholders. The date of board meeting for proposing such further grant should be taken as the date of grant for such grants.

No Option has been granted since the adoption of the Share Option Scheme.

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DIRECTORS

The directors during the year were:

Executive directors

Mr. LI Kuo Hsing (*Chairman*)

Mr. TONG Hing Chi (*Managing Director*)

Mr. CHAU Kei Leung

Non-executive directors

Mr. CHAN Ngan Piu

Dr. YOU Jing Feng (resigned on 26th September 2005)

Independent non-executive directors

Mr. CHEUNG Yui Kai, Warren

Ms. WANG Huarong

Mr. CHEUNG Ming Man

In the forthcoming annual general meeting of the Company, Mr. LI Kuo Hsing, Mr. TONG Hing Chi, Mr. CHEUNG Yui Kai, Warren and Mr. CHAN Ngan Piu, retire and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group entered into certain transactions with associated companies in which certain directors of the Company have indirect interests through their interests in the Company as disclosed in the section headed "Directors' and chief executives' interests, and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" below. Details of these transactions have been set out in note 34 to the financial statements, save as the above, no other contracts of significance in relation to the Group's business to which the Company, its holding company or 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.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 6 to 7.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS, AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st March 2006, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.1 each in the Company

Name of director	Number of shares beneficially held — Long position			% of the issued share capital of the Company
	Personal interests	Family interests	Corporate interests	
Mr. LI Kuo Hsing	27,893,500	37,968,750 <i>Note (i)</i>	413,433,510 <i>Note (ii)</i>	62.17%
Mr. TONG Hing Chi	3,375,000	—	—	0.44%
Mr. CHAU Kei Leung	7,209,000	—	—	0.94%
Mr. CHAN Ngan Piu	2,025,000	—	—	0.26%

Notes:

- (i) These shares are held by Ms. LI Pik Lin, the spouse of Mr. LI Kuo Hsing.
- (ii) These shares are held by Kuo Hsing Holdings Limited, a company beneficially controlled by Mr. LI Kuo Hsing.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS, AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

(b) Interest in subsidiaries of the Company

Mr. Li Kuo Hsing personally holds non-voting deferred shares of HK\$1 each in the following subsidiaries:

Name	Number of non-voting deferred shares held Personal interests
Mei Ah Laser Disc Company Limited	100,000
Mei Ah Video Production Company Limited	10,000
Mei Ah Investment Company Limited	500,000

Save as aforesaid, at no time during the year was the Company, its subsidiaries, its associated companies or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Save as aforesaid, at no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in or had been granted or exercised, any rights to subscribe for shares of the Company and its associated companies (within the meaning of the SFO).

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SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31st March 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition of those disclosed above in respect of the directors and chief executives.

Ordinary shares of HK\$0.1 each in the Company

	Number of shares — Long position		Total
	Corporate interests	Persons acting in concert	
IDG-Accel China Growth Fund — A L.P.	8,190,000	43,810,000	52,000,000
IDG-Accel China Growth Fund — L.P.	40,076,400	11,923,600	52,000,000
IDG-Accel China Investors L.P.	3,733,600	48,266,400	52,000,000
IDG-Accel China Investors Associates Ltd.	52,000,000	—	52,000,000
IDG-Accel China Growth Fund Associates L.P.	52,000,000	—	52,000,000
IDG-Accel China Growth Fund GP Associates Ltd.	52,000,000	—	52,000,000
Zhou Quan	52,000,000	—	52,000,000
Mc Govern Patrick J.	52,000,000	—	52,000,000
Breyer Jim	52,000,000	—	52,000,000

Notes:

- (a) The total long position interests in the above parties refer to the same parcel of shares.
- (b) On 20th March 2006, conditional placing agreements were entered into between the Company and (i) IDG-Accel China Growth Fund — A L.P.; (ii) IDG-Accel China Growth Fund — L.P.; and (iii) IDG-Accel China Investors L.P., which will be placed 8,190,000, 40,076,400 and 3,733,600 of the Company's new shares respectively. The placing agreements were completed and 52,000,000 new shares, which represent 6.32% of the enlarged issued share capital of the Company, were allotted on 12th April 2006.
- (c) The placees as stated in (b) above act in concert with each other under the placing agreements.
- (d) IDG-Accel China Investors L.P. is wholly owned by IDG-Accel China Investors Associates Ltd. which is in turn wholly owned by Breyer Jim.
- (e) IDG-Accel China Growth Fund — A L.P. and IDG-Accel China Growth Fund — L.P. are wholly owned by IDG-Accel China Growth Fund GP Associates Ltd.
- (f) IDG-Accel China Growth Fund GP Associates Ltd. is 50% owned by each of Zhou Quan and Mc Govern Patrick J.

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PLEDGE OF SHARES

At 31st March 2006, 30,000,000 ordinary shares of the Company held by Kuo Hsing Holdings Limited, the controlling shareholder of the Company, were pledged to a bank to secure general banking facilities granted to the Group. Details of the facilities have been set out in note 28 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

PURCHASES

— the largest supplier	15%
— five largest suppliers combined	43%

SALES

— the largest customer	23%
— five largest customers combined	48%

The largest supplier of the Group is a 45% owned associated company in which certain directors of the Company have indirect interests through their interests in the Company as disclosed in the section "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation". Save as the above, none of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 34 to the financial statements do not constitute connected transactions under the Listing Rules.

CORPORATE GOVERNANCE REPORT

Corporate Governance Report of the Company is set out on pages 8 to 10.

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DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors or management shareholders of the Company (as defined in the Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

SUBSEQUENT EVENTS

Details of the subsequent events of the Group are set out in note 38 to the financial statements.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Kuo Hsing

Chairman

Hong Kong, 26th July 2006