

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company 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 48, 23 and 22 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year are set out in the consolidated income statement on page 22.

The directors recommended the payment of a final dividend of HK\$15,273,000 representing HK1.7 cents per share (2005: HK 3.5 cents), payable to shareholders of the Company whose names are on the register of members on 29th August, 2006.

INVESTMENT PROPERTIES

During the year, the Group acquired an investment property at a consideration of approximately HK\$36,000,000 and disposed of an investment property with a carrying value of approximately HK\$296,000,000 for a consideration of HK\$296,000,000.

The Group revalued all of its investment properties at the balance sheet date. The increase in fair value of investment properties, which amounted to HK\$100,000,000, has been credited directly to the consolidated income statement.

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

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure of approximately HK\$3,261,000 on the acquisition of property, plant and equipment.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 35 to the financial statements.

BORROWINGS

Details of bank and other borrowings of the Group are set out in note 34 to the financial statements. No interest was capitalised by the Group during the year.

DISTRIBUTABLE RESERVES OF THE COMPANY

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st March, 2006 including contributed surplus and accumulated profits amounted to HK\$404,399,000 (31st March, 2005: HK\$421,421,000).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sale during the year attributable to the Group's five largest customers was less than 30% of the Group's total sales.

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

SUBSIDIARIES, ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES

During the year, the Group acquired 100% interests in Yieldson Development Limited ("Yieldson") and Fook Shing Limited ("Fook Shing") for an aggregate consideration of approximately HK\$240,000,000. The major asset of Yieldson and Fook Shing is a long-term leasehold land in Hong Kong.

During the year, the Group disposed of its entire interests in Rapid Growth Profits Limited, Metrorich Worldwide Limited and Island Town Limited for a consideration of approximately HK\$39,000,000. The major asset of these subsidiaries is a property held for sale.

In May 2005, the Group disposed of its entire interest in Capital Estate Limited (a company whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE")), a 21.13% associate of the Group as at 31st March, 2005 for a consideration of approximately HK\$40,414,000 and no interest of Capital Estate Limited was held by the Group as at 31st March, 2006.

On 23rd November, 2005, the Group and High Focus Limited, a wholly-owned subsidiary of Paul Y. Engineering Group Limited whose shares are listed on the Main Board of HKSE, entered into an agreement ("Favor Win Agreement") for the establishment of Favor Win Limited ("Favor Win") as a jointly-controlled entity. Favor Win and Lehman Brothers (a special purpose vehicle established by Lehman Brothers Holdings Inc., a global investment bank listed on New York Stock Exchange) then entered into an agreement ("Gain Resources Agreement") for the establishment of Gain Resources Limited ("Gain Resources") as a jointly-controlled entity.

DIRECTORS' REPORT

SUBSIDIARIES, ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES *(Continued)*

Gain Resources entered into sale and purchase agreement with the seller ("Seller", a wholly-owned subsidiary of PYI Corporation Limited whose shares are listed on HKSE) on the same day for the acquisition of the entire issued share capital of Linkport Holdings Limited ("Linkport") and an outstanding loan owing by Linkport and/or its subsidiaries to the Seller on completion for an aggregate consideration of HK\$780 million ("Acquisition"). Linkport is an investment holding company and its subsidiaries are holding the properties known as Paul Y. Centre, located in Kowloon, Hong Kong (the "Properties"). The consideration of HK\$780 million was financed by (i) HK\$117 million by way of issuance of a promissory note by subsidiaries of Linkport, being the registered owners of the Properties; (ii) HK\$546 million by non-recourse bank loan; and (iii) HK\$117 million by shareholders' loan. Following the establishment of Favor Win and Gain Resources and completion of the Acquisition, the Group held a 25% effective interests in Linkport as at 31st March, 2006.

DIRECTORS

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

Non-executive director:

Mr. Chung Cho Yee, Mico (redesignated as Non-executive Chairman on 29th June, 2005)

Executive directors:

Ms. Ma Wai Man, Catherine

Mr. Chow Hou Man (appointed on 29th June, 2005)

Dato' Choo Yeow Ming (resigned on 29th June, 2005)

Independent non-executive directors:

Dr. Lam Lee G.

Dato' Wong Sin Just

Mr. Cheng Yuk Wo

Mr. Liu Yeau-Hwan, Pete (retired on 25th August, 2005)

Pursuant to Bye-law 99(A) of the Bye-Laws, Ms. Ma Wai Man, Catherine and Dato' Wong Sin Just shall retire by rotation. All retiring directors, being eligible, offer themselves for re-election at the Annual General Meeting.

The directors proposed for re-election at the forthcoming annual general meeting do not have any service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive director is the period up to the retirement by rotation in accordance with the Company's bye-laws.

BRIEF DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF

Directors

Mr. Chung Cho Yee, Mico, aged 45, Non-Executive Chairman, Non-Executive Director and a substantial shareholder of the Company, joined the Group in 2004, graduated from the University College, University of London, England, with a law degree in 1983. He qualified as a solicitor in Hong Kong in 1986. Mr. Chung is currently holding directorships in E2-Capital (Holdings) Limited, Pacific Century Insurance Holdings Limited, PCCW Limited and Hong Kong Construction (Holdings) Limited, all being companies listed on HKSE. He is also a director of JALECO Ltd., a company listed on Jasdac Securities Exchange Inc.

Ms. Ma Wai Man, Catherine, aged 40, Executive Director and Company Secretary of the Company, joined the Group in 2001. Ms. Ma, a graduate of the City University of Hong Kong, is a chartered secretary and a fellow of Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. Ms. Ma has extensive management experience in companies with diversified interests ranging from manufacturing, telecommunications to infrastructure and property investments. She has also held executive directorship in a number of companies listed on local and overseas stock exchanges before joining the Company.

Mr. Chow Hou Man, aged 35, Executive Director, Chief Financial Officer and Qualified Accountant of the Company, joined the Group in 2001. Mr. Chow graduated from the Baptist University and holds a MBA degree from the Hong Kong Polytechnic University. He has over 10 years of financial experience in various companies listed in Hong Kong and overseas and an international firm of certified public accountants. He is a member of both Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

Dr. Lam Lee G., aged 46, joined the Company as an Independent Non-Executive Director in 2001. He holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa, Canada, a Post-graduate Diploma in English and Hong Kong Law from Manchester Metropolitan University, U.K., a Post-graduate Diploma in Public Administration from Carlton University, Canada, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 23 years of banking, and direct investment experience. He is President & CEO, and Vice Chairman of the Board of Chia Tai Enterprises International Limited, senior Executive Vice President of Chia Tai Group (CP Group), a Member of the Board of TRUE Corporation PLC, and Vice Chairman of Shanghai Kinghill Ltd. A Fellow of the Hong Kong Institute of Directors, Dr. Lam has served on the board of a number of publicly-listed and privately-held companies.

Dato' Wong Sin Just, aged 40, Independent Non-Executive Director, joined the Group in 2001. Mr. Wong possesses over 10 years of investment banking experience having held positions with a number of premier international investment banks. Mr. Wong is currently the executive co-chairman of E2-Capital (Holdings) Limited. Prior to establishing E2-Capital (Holdings) Limited, Mr. Wong was the Managing Director and the Head of Equity Capital Markets at BNP Prime Peregrine Securities Limited. Mr. Wong holds a Bachelor Degree in Engineering (First Class Honours) from the Imperial College of Science, Technology and Medicine, University of London and was qualified with the Institute of Chartered Accountants in England and Wales. Mr. Wong is also an Executive Director and the Chief Executive Officer of Softbank Investment International (Strategic) Limited and an Independent Non-executive Director of hongkong.com Corporation.

DIRECTORS' REPORT

BRIEF DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF

(Continued)

Directors *(Continued)*

Mr. Cheng Yuk Wo, aged 45, Independent Non-Executive Director, joined the Group in 2002. Mr. Cheng is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Cheng worked at Coopers and Lybrand in London and with Swiss Bank Corporation in Toronto. He has held senior management positions in a number of Hong Kong listed companies and is a co-founder of a Hong Kong merchant banking firm. He is an independent non-executive director of several listed companies and the proprietor of a certified public accountant practice in Hong Kong. Mr. Cheng holds a M.Sc.(Econ) degree and a B.A. (Hon) degree.

Senior Management Staff

Mr. Mak Wing Lung, aged 52, Director (Group Property Division) of CSI Property Holdings Limited, joined the Group in 2006, is the overall in charge of the property projects of the Group. Mr. Mak graduated from the University of Reading, England in 1982 and qualified as a Chartered Surveyor in 1985. He also has over 30 years experience in managing sizable property portfolio in Hong Kong. Before joining the Group, Mr. Mak had held significant position in Hong Kong listed companies and international property management and investment firms.

Mr. Wong Chung Kwong, aged 55, General Manger (Group Property Division) of CSI Property Holdings Limited, joined the Group in 2004, is responsible for all property related investments of the Group. Mr. Wong has been working in the local and mainland real estate markets for 30 years and has solid experience in properties related projects such as leasing, sale and marketing, tenders and property management. Before joint he Group, Mr. Wong had worked in property development and management companies in Mainland China and Hong Kong.

Mr. Ho Lok Fai, aged 45, Head of Marketing and Leasing (Group Property Division) of CSI Property Holdings Limited, joined the Group in 2005, is responsible for the sale and leasing of all properties of the Group. Mr. Ho possesses more than 15 years experience in the office and commercial property market in Hong Kong and is specialized in analyzing market data and trend. Mr. Ho had worked in several property agency companies before joining the Group.

DIRECTORS' INTERESTS IN SHARES

Save as disclosed in sections headed "Substantial Shareholders" and "Share Option Schemes", as at 31st March, 2006, none of the Company's directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of the Securities and Futures Ordinance ("SFO") and as recorded in the register kept by the Company under Section 352 of the Securities Future Ordinance or as otherwise notified to the Company and HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 36 to the financial statements.

The following table discloses movements in the Company's share options during the year:

	Option scheme type	Exercise price HK\$	Number of options outstanding at 1.4.2005	Reclassification	Exercised during the year (Note 3)	Lapsed during the year	Number of options outstanding at 31.3.2006
Directors							
Ma Wai Man, Catherine	2001	0.672	7,875,000	—	(800,000)	—	7,075,000
	2002 (Note 1)	0.560	3,125,000	—	—	—	3,125,000
Chow Hou Man (Note 2)	2001	0.672	—	1,137,500	(300,000)	—	837,500
	2002 (Note 1)	0.560	—	3,125,000	—	—	3,125,000
Total for directors			11,000,000	4,262,500	(1,100,000)	—	14,162,500
Employees and consultants							
	2001 (Note 2)	0.672	17,057,500	(1,137,500)	(4,135,000)	(622,500)	11,162,500
	2002 (Notes 1 and 2)	0.560	18,375,000	(3,125,000)	—	—	15,250,000
	2002	0.560	7,500,000	—	—	—	7,500,000
	2002	0.600	3,750,000	—	—	—	3,750,000
Total for employees and consultants			46,682,500	(4,262,500)	(4,135,000)	(622,500)	37,662,500
Grand total			57,682,500	—	(5,235,000)	(622,500)	51,825,000

DIRECTORS' REPORT

SHARE OPTION SCHEMES *(Continued)*

Notes:

- (1) There is a limit on the number of share options under the 2002 Share Option Scheme that may be exercised by each grantee during each period of 12 months commencing from 23rd September, 2002 (until 22nd September, 2006), namely, the aggregate of (a) 20% of the total number of such share options granted and (b) any unused limits accumulated during previous period(s), subject to the written consent of the chairman of the Company to the exercise of share options exceeding such limit.
- (2) Mr. Chow Hou Man was appointed as a director of the Company on 29th June, 2005 and his holding of share options was reclassified under the category of directors upon the appointment.
- (3) The closing prices of the Company's shares at the dates of exercise by the directors and employees were HK\$1.30 and HK\$1.60 per share respectively.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above and in notes 35 and 36 to the financial statements, at no time during the year, was the Company or 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.

DIRECTOR'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 35 to the financial statements, no contracts of significance to which the 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that as at 31st March, 2006 the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long position

Name	Capacity	Long position/ short position	Number of shares	Approximate shareholding percentage
Chung Cho Yee, Mico	Beneficial owner (Note 1)	Long position	187,407,250	32.05%
Earnest Equity Limited	Interest of controlled corporation (Note 2)	Long position	186,987,250	31.98%
Deutsche Bank Aktiengesellschaft	Security interest	Long position	43,748,000	7.48%
Stark Investments (Hong Kong) Limited	Beneficial owner	Long position	50,000,000	8.55%
PMA Capital Management Limited	Beneficial owner	Long position	45,404,000	7.76%
Chan Kwok Keung, Charles	Interest of controlled corporation (Note 3)	Long position	43,744,000	7.48%
Chinaview International Limited	Interest of controlled corporation (Note 3)	Long position	43,744,000	7.48%
Galaxyway Investments Limited	Interest of controlled corporation (Note 3)	Long position	43,744,000	7.48%
ITC Corporation Limited	Interest of controlled corporation (Note 3)	Long position	43,744,000	7.48%
ITC Investment Holdings Limited	Interest of controlled corporation (Note 3)	Long position	43,744,000	7.48%
New Oval Holdings Limited	Beneficial owner (Note 3)	Long position	43,744,000	7.48%
Ng Yuen Lan, Macy	Family interest (Note 3)	Long position	43,744,000	7.48%
Diversified Asian Strategies Fund	Beneficial owner (Note 4)	Long position	28,432,000	4.86%
Eisner Investments Limited	Beneficial owner (Note 5)	Long position	30,000,000	5.13%
Li Tzar Kai, Richard	Interest of controlled corporation (Note 5)	Long position	30,000,000	5.13%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long position *(Continued)*

1. Being the aggregate of personal interest of Mr. Chung Cho Yee, Mico ("Mr. Chung") of 420,000 shares and the corporate interest held by Earnest Equity Limited ("Earnest Equity") of 186,987,250 shares.
2. Earnest Equity, the entire issued share capital of which is held by Digisino Assets Limited ("Digisino"), as trustee of a discretionary trust founded by Mr. Chung, who together with his spouse and children are the current discretionary beneficiaries. Further, the entire issued share capital of Digisino is held by Mr. Chung and that both Digisino and Earnest Equity are corporations wholly owned and controlled by him.
3. New Oval Holdings Limited, a company that held 43,744,000 shares in the Company is a wholly-owned subsidiary of ITC Investment Holdings Limited ("ITC Investment"), which was, in turn a wholly-owned subsidiary of ITC Corporation Limited ("ITC"), Galaxyway Investments Limited ("Galaxyway"), a wholly-owned subsidiary of Chinaview International Limited ("Chinaview"), owned approximately 34.79% of the issued ordinary share capital of ITC. Dr. Chan Kwok Keung, Charles ("Dr. Chan") owned the entire issued share capital of Chinaview, Dr. Chan, Chinaview, Galaxyway, ITC and ITC Investment were deemed to be interested in the said 43,744,000 shares in the Company. Ms. Ng Yuen Lan, Macy, the spouse of Dr. Chan, was deemed to be interested in the said 43,744,000 shares in the Company.
4. Diversified Asian Strategies Fund is a fund managed by PMA Capital Management Limited.
5. Eisner Investments Limited, a company that held 30,000,000 shares in the Company and is wholly and beneficially owned by Mr. Li Tzar Kai, Richard ("Mr. Li"). Mr. Li was deemed to be interested in the 30,000,000 shares in the Company.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital as at 31st March, 2006.

APPOINTMENT 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 Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence with reference to the prevailing market terms. In addition to salaries, discretionary bonuses may be rewarded to employees after assessment of the performance of the Group and the individual employee.

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 employees, details of the scheme is set out in note 36 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company is obliged to comply with the requirements for continuing listing on HKSE and is committed to practice high standard of corporate governance in its daily management and operations. The Company follows and applies the principles of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules in the year under review with exception of few deviations. Detailed information on the Company's corporate governance practices is set out in the Corporate Governance Report contained in pages 8 to 10 of this Annual Report.

SUFFICIENCY OF PUBLIC FLOAT

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 47 to the financial statements.

AUDITORS

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

CHUNG CHO YEE, MICO
NON-EXECUTIVE CHAIRMAN
29th July, 2006