

## Report of Directors

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

### Principal Activities

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 50 to the financial statements.

### Results and Appropriations

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 36 of the annual report.

The directors do not recommend the payment of a dividend for the year ended 31 March 2006 (2005: HK\$Nil).

### Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 16 to the financial statements.

### Share Capital

Details of movements in the share capital of the Company during the year are set out in note 38 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.

### Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 40 to the financial statements.

### Distributable Reserves

At 31 March 2006, the Company had no reserves available for distribution (2005: HK\$101,208,000).

## Report of Directors

### Summary Financial Information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 112. This summary does not form part of the audited financial statements.

### Share Option Scheme

Details of the share option schemes of the Company are set out in note 39 to the financial statements.

At 31 March 2006, the number of shares in respect of which options had been granted and remaining outstanding under share option schemes of the Company was 25,522,600 (2005:18,730,000), representing 5.5% (2005: 4.8%) of the shares of the Company in issue at that date.

A summary of the movements in the Company's share options during the year is as follows:

Option type	Outstanding at 1 April 2005	Granted during the year	Lapsed during the year	Outstanding at 31 March 2006
2002A	2,000,000	-	(2,000,000)	-
2003C	2,000,000	-	(2,000,000)	-
2003D	2,000,000	-	(2,000,000)	-
2004A	200,000	-	(200,000)	-
2004B	8,400,000	-	(2,000,000)	6,400,000
2004C	3,630,000	-	(1,000,000)	2,630,000
2005A	500,000	-	-	500,000
2006A	-	19,792,600	(3,800,000)	15,992,600
Total	18,730,000	19,792,600	(13,000,000)	25,522,600

Details of the share options held by the Directors during the year included in the above table are as follows:

#### For the year ended 31 March 2006

Option type	Outstanding at 1 April 2005	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31 March 2006
<b>Directors:</b>					
Mr Hon Ming Kong (a)	2003D	2,000,000	-	(2,000,000)	-
	2004B	2,000,000	-	-	2,000,000
Mr Lee Yu Leung (b)	2002A	2,000,000	-	(2,000,000)	-
	2004B	2,000,000	-	-	2,000,000
Mr Lin Hoi Kwong (c)	2003C	2,000,000	-	(2,000,000)	-
		10,000,000	-	(6,000,000)	4,000,000

#### Note:

The share options including certain share options granted to three former directors of the Company.

- Mr. Hon Ming Kong waived 2,000,000 share options at an exercise price of HK\$4.960 voluntarily on 9 August 2005. He resigned as a director of the Company on 31 October 2005 but remained as an employee of the Group.
- Mr. Lee Yu Leung waived 2,000,000 share options at an exercise price of HK\$1.4944 voluntarily on 9 August 2005. He resigned as a director of the Company on 31 October 2005 but remained as an employee of the Group until 30 June 2006.
- These share options were held by the spouse of Mr. Lin Hoi Kwong, which he was deemed to be interested in. Mr. Lin Hoi Kwong was a director of the Company during the period from 6 December 2004 to 31 October 2005.

## Share Option Scheme (Continued)

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Closing price immediately before/on the date of grant HK\$	Exercise price per share HK\$
2002A	1 February 2002	1 September 2002 – 31 August 2007	1.520	1.4944
2003C	3 May 2002	3 November 2002 – 2 November 2007	4.530	4.6200
2003D	14 May 2002	14 November 2002 – 13 November 2007	4.950	4.9600
2004A	28 July 2003	28 July 2003 – 27 July 2008	1.350	1.3500
2004B	27 August 2003	27 August 2003 – 26 August 2008	1.170	1.3060
2004C	16 January 2004	16 January 2004 – 15 January 2009	0.840	0.8520
2005A	1 April 2004	1 April 2004 – 31 March 2009	0.700	0.7000
2006A	2 August 2005	2 August 2005 to 1 August 2010	0.340	0.3520

Options which have been lapsed or are cancelled have been taken out of the register of outstanding options maintained by the Company.

## Report of Directors

### Directors

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

#### Executive Directors

YOU Wei ( <i>Chairman</i> )	(appointed as an Executive Director on 10 May 2006 and as the Chairman on 29 June 2006)
NG Khai Wain ( <i>Chief Executive Officer</i> )	(appointed as an Executive Director on 10 May 2006 and as Chief Executive Officer on 29 June 2006)
YEUNG Kwok Leung	(appointed on 23 December 2005)
SZETO Chak Wah, Michael, (alias SETO Chak Wah)	(appointed as the Chairman and an Executive Director on 26 October 2005 and resigned on 27 April 2006)
LAI Man Leung	(appointed on 26 October 2005 and resigned on 27 April 2006)
ZHAO Lin	(appointed on 5 July 2005 and resigned on 6 February 2006)
HON Ming Kong	(first appointed as an Executive Director on 25 April 2002, further appointed as Chairman during the period from 19 February 2003 to 26 November 2004, re-designated as a Non-Executive Director on 4 October 2005 and resigned on 31 October 2005)
CHAN Tat Chee	(first appointed as Chairman and an Executive Director on 26 November 2004, resigned as Chairman and re-designated as Non-Executive Director on 4 October 2005, resigned on 31 October 2005)
LEE Yu Leung	(appointed as an Executive Director on 1 February 2002, re-designated as Non-Executive Director on 4 October 2005 and resigned on 31 October 2005)
LIN Hoi Kwong	(appointed as an Executive Director on 6 December 2004, appointed as Chief Executive Officer on 4 October 2005 and resigned on 31 October 2005)
LOO Chung Keung, Steve	(appointed as an Independent Non-Executive Director on 28 September 2004, appointed as Chairman and re-designated an Executive Director on 4 October 2005, resigned on 26 October 2005)
Pascal TING	(appointed on 17 March 2004 and resigned on 22 July 2005)
CHEN Jun Nong	(appointed on 17 March 2004 and resigned on 6 May 2005)

## Directors (Continued)

### Non-Executive Director

LI Yong, Alfa (appointed on 13 May 2004 and resigned on 22 September 2005)

### Independent Non-Executive Directors

Albert HO	(appointed on 10 May 2006)
Shane PHILLIPS	(appointed on 10 May 2006)
CAI Zhixu	(appointed on 10 May 2006)
TSOI Wai Kwong	(appointed on 22 September 2003 and resigned on 10 May 2006)
AU Tin Fung	(appointed on 23 December 2005 and resigned on 10 May 2006)
LAW Mun Yee	(appointed on 2 November 2005 and resigned on 27 April 2006)
CHONG Yiu Kan, Sherman	(appointed on 23 December 2005 and resigned on 27 April 2006)
AU YEUNG Ka Cheung	(appointed on 24 March 2005 and resigned on 27 October 2005)
WONG Tik Tung	(appointed during the period from 23 January 2002 to 3 January 2003, re-appointed on 2 June 2005 and resigned on 30 September 2005)

In accordance with Article 99 of the Company's Articles of Association, each of Ms. YOU Wei, Mr. NG Khai Wain, Mr. YEUNG Kwok Leung, Mr. Albert HO, Mr. Shane PHILLIPS and Mr. CAI Zhixu will hold office as director of the Company until the conclusion of the forthcoming annual general meeting and they, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Independent Non-Executive Directors are subject to retirement by rotation. The Company has received from each Independent Non-Executive Director a confirmation of his independence pursuant to the new independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers the Independent Non-Executive Directors to be independent.

## Directors' and senior management's biographies

Biography details of the Company and the senior management of the Group are set out on pages 8 to 10 of the annual report.

## Report of Directors

### Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### Convertible Securities, Options, Warrants or Similar Rights

Other than those disclosed under "Share Option Scheme" above, the Company had no outstanding convertible securities, options, warrants or similar rights as at 31 March 2006 and there has been no other issue or exercise of any convertible securities, options, warrants or similar rights during the year.

### Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 March 2006, the Directors of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

#### Long position in the shares and underlying shares of the Company

Name of Director	Number of ordinary shares beneficially held and nature of interest		Underlying Shares	Approximate percentage of total shareholding %
	Personal	Corporate		
Tsoi Wai Kwong	174,000	–	–	0.04%

Note:

*Mr. Tsoi Wai Kwong resigned as an Independent Non-Executive Director of the Company on 10 May 2006.*

Other than as disclosed above and certain nominee shares in subsidiaries held by the Directors in trust for the Group, none of the Directors, or their associates, had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules or under Division 7 and 8 of Part XV of the SFO.

### Arrangements to Purchase Shares or Debentures

Other than options granted under the Company's share option scheme mentioned above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive, their respective spouse or minor children (natural or adopted) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate under an arrangement to which the Company, any of its subsidiaries, holding company, or subsidiaries of the holding company (i.e. fellow subsidiaries) is a party, and the exercise of such rights.

## Directors' Interests in Contracts of Significance

Save as disclosed in note 49 to the financial statements, no contracts 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.

## Directors' Interests in Competing Business

None of the Directors of the Company is interested in any business, which compete or is likely to compete either directly or indirectly, with the business of the Group.

## Connected Transactions

Details of the connected transactions are set out in note 49 to the financial statements.

## Substantial Shareholders' Interests

As at 31 March 2006, the register of substantial shareholders' interests in shares and short positions maintained under section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more held in the shares and underlying shares of the Company.

Long position in the shares of the Company:

Name of shareholders	Number of ordinary shares held	Approximate percentage of total shareholding %
Highworth Venture Limited ( <i>Note a</i> )	72,900,000	15.71%
AWH Fund Ltd. ( <i>Note b</i> )	27,366,000	5.90%

Notes:

- (a) Highworth Venture Limited ("Highworth") is a company beneficially wholly owned as to 50% by each of Mr. Chan Tat Chee and Mr. Hon Ming Kong, the former Chairman and a former Executive Director of the Company, and therefore both Mr. Chan Tat Chee and Mr. Hon Ming Kong is deemed to be interested in the 72,900,000 shares held by Highworth by virtue of SFO. On 10 May 2006, Highworth entered into a sale and purchase agreement with Billion Boom Investments Limited ("BBIL"), pursuant to which (i) 63,900,000 shares of HK\$0.10 each in the Company (representing approximately 13.77% of the Company's issued share capital) were sold to BBIL, which sale was completed on 10 May 2006 at a total consideration of HK\$3 million; and (ii) a call option was granted at an option price of HK\$1 in total by Highworth in favour of BBIL over 9,000,000 shares (representing approximately 1.94% of the Company's issued share capital) owned by Highworth (the share certificates in respect of which were reported to have been lost and the replacement certificates were being applied for). Under such agreement, BBIL may exercise the call option to acquire the entirety of 9,000,000 shares concerned at an exercise price of HK\$1 in total. It is BBIL's intention to exercise such call option once the replacement certificates are obtained by Highworth.
- (b) Based on the information provided by the Stock Exchange official website on 27 July 2006.

Save as disclosed above, as at 31 March 2006, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

## Report of Directors

### Sufficiency of Public Float

Based on 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 as at the date of this report.

### Major Customers and Suppliers

During the year, the five largest customers of the Group accounted for about 52% of the turnover of the Group and the largest customer accounted for about 22% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for about 69% of its purchases for the year. Purchases from the largest supplier accounted for about 48% of its purchases.

None of the directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in any of the five largest customers and the five largest suppliers of the Group for the financial year ended 31 March 2006.

### Retirement Benefits Schemes

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The Group strictly complies with the Mandatory Provident Fund Schemes Ordinance in making mandatory contributions for its staff.

### Purchase, Sale or Redemption of Securities

The Company and its subsidiaries have not repurchased, sold or redeemed any of the Company's securities during the year.

### Post Balance Sheet Events

Details of significant events which occurred after the balance sheet date are set out in note 52 to the financial statements.

### Corporate Governance

The Company has, throughout the year ended 31 March 2006, complied with most of the applicable code provisions and principles of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Details of the Corporate Governance Report of the Company was set out on page 20 to 30 of this annual report.

### Pre-emptive Rights

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



## Litigation

As at 31 March 2006 there were no material contingent liabilities in respect of outstanding litigation or legal proceeding that need to be disclosed.

## Model Code for Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Upon specific enquiry of the Company, Mr. Yeung Kwok Leung, a Director of the Company who was appointed during the year ended 31 March 2006, confirmed that he has complied with the Model Code for the year ended 31 March 2006. Except for Mr. Yeung, all other Directors of the Board were appointed after the year ended 31 March 2006 and all of them confirmed that they have complied with the Model Code since their appointment.

## Audit Committee

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three Independent Non-Executive Directors of the Company. They have reviewed with management the accounting policies and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited financial statements for the year ended 31 March 2006.

## Auditors

Horwath Hong Kong CPA Limited were appointed as auditors of the Company on 13 June 2006 to fill the casual vacancy created by the resignation of HLB Hodgson Impey Cheng on 18 May 2006.

HLB Hodgson Impey Cheng were appointed as auditors of the Company with effect from 25 November 2004.

A resolution for the appointment of Horwath Hong Kong CPA Limited as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Ng Khai Wain**  
*Chief Executive Officer*

Hong Kong, 27 July 2006