

REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) present their annual report and the audited financial statements for the year ended 31st March, 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group’s five largest suppliers accounted for 32% of the Group’s total purchases. The largest supplier accounted for 10% of the Group’s total purchases.

During the year, the Group’s five largest customers accounted for 50% of the Group’s total sales. The largest customer accounted for 28% of the Group’s total sales.

None of the Directors, their associates or any shareholders of the Company, which to the knowledge of the directors own more than 5% of the Company’s issued share capital, has a beneficial interest in any of the Group’s five largest suppliers or customers.

RESULTS

The results of the Group for the year ended 31st March, 2006 are set out in the consolidated income statement on page 30 and the accompanying notes to the consolidated financial statements. The directors do not recommend the payment of a dividend for the year ended 31st March, 2006.

FINANCIAL SUMMARY

A financial summary of the Group is set out on page 80.

SHARE CAPITAL

Details of movements in the Company’s share capital are set out in note 24 to the consolidated financial statements.

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PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 12 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors:

KAN Shiu Cheong, Frederick, *Chairman*

CHAN Hoi Lam, *Chief Executive Officer*

YAU Kang Nam

JIANG Hai Qing

Independent non-executive Directors:

NG Sui Keung

LAI Kin Keung

YUEH Yung Hsin (appointed on 30th September, 2005)

LIU Ngai Wing (retired on 29th July, 2005)

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The Company considers that all of the independent non-executive Directors are independent.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Yueh Yung Hsin will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In accordance with Bye-law 87 of the Company's Bye-laws, Messrs. Kan Shiu Cheong, Frederick and Chan Hoi Lam, will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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

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DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the sections headed "Connected Transaction" and "Continuing Connected Transaction", there were no contracts of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st March, 2006, the Directors had the following interests in the shares and underlying shares of the Company, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"):

Name of directors	Nature of interest	Number of shares/underlying shares held			Aggregate percentage of the issued share capital
		Beneficial interest in shares (Note 1)	Beneficial interest in underlying shares (Notes 1 & 2)	Total interests	
Kan Shiu Cheong, Frederick	Personal	205,441,481	44,437,500	249,878,981	4.21%
Chan Hoi Lam	Personal	1,158,381,434	75,937,500	1,234,318,934	20.81%
Yau Kang Nam	Personal	52,454,200	–	52,454,200	0.88%
Jiang Hai Qing	Personal	–	11,250,000	11,250,000	0.19%

Notes:

1. The interests stated above represent long positions.
2. These include the interests of Directors in the underlying shares of the Company in respect of the share options granted to them pursuant to the share option scheme adopted by the Company on 29th August 2002. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 each of the Company.

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Save as disclosed above, as at 31st March, 2006, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or their respective associates 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 were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st March, 2006, the following persons (other than Directors) had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity	Direct interest in shares held	Percentage of the issued share capital
First Century Holdings Limited	Beneficial owner	2,058,869,889	34.71%
Ian Duncan Boyce	Beneficial owner	318,999,618	5.38%

Note: Mr. Kan Shiu Cheong, Frederick and Mr. Chan Hoi Lam, who are both directors of the Company, are also directors of First Century Holdings Limited.

Save as disclosed above, as at 31st March, 2006, the Company had not been notified of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

On 29th August, 2002, the Company adopted a share option scheme (the “Scheme”) which complies with the new requirements of Chapter 17 of the Listing Rules effective on 1st September, 2001. During the year ended 31st March, 2006, no options granted under the Scheme were cancelled or lapsed.

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Details of the movements in the options under the Scheme during the year were as follows:

Name or category of participant	Date of grant (Notes 1 & 2)	Exercise period (Note 1)	Previous exercise price per share HK\$	Adjusted exercise price per share HK\$ (Note 4)	Number of share options				Outstanding at 31.3.2006	Weighted average closing price HK\$ (Note 3)
					Outstanding at 1.4.2005	Granted during the year	Exercised during the year	Adjustment during the year (Note 4)		
Directors										
Kan Shiu Cheong, Frederick	20.9.2005	20.9.2005 to 19.9.2008	0.0274	0.0244	-	39,500,000	-	4,937,500	44,437,500	-
Chan Hoi Lam	3.4.2003	3.4.2003 to 2.4.2006	0.0180	0.0160	28,000,000	-	-	3,500,000	31,500,000	-
	20.9.2005	20.9.2005 to 19.9.2008	0.0274	0.0244	-	39,500,000	-	4,937,500	44,437,500	-
Yau Kang Nam	3.4.2003	3.4.2003 to 2.4.2006	0.0180	0.0160	6,000,000	-	(6,000,000)	-	-	0.044
Jiang Hai Qing	3.4.2003	3.4.2003 to 2.4.2006	0.0180	0.0160	10,000,000	-	-	1,250,000	11,250,000	-
					<u>44,000,000</u>	<u>79,000,000</u>	<u>(6,000,000)</u>	<u>14,625,000</u>	<u>131,625,000</u>	
Employees										
In aggregate	3.4.2003	3.4.2003 to 2.4.2006	0.0180	0.0160	26,900,000	-	(6,400,000)	2,562,500	23,062,500	0.033
	26.4.2005	26.4.2005 to 25.4.2008	0.0362	0.0322	-	39,000,000	-	4,875,000	43,875,000	-
					<u>26,900,000</u>	<u>39,000,000</u>	<u>(6,400,000)</u>	<u>7,437,500</u>	<u>66,937,500</u>	
Total					<u>70,900,000</u>	<u>118,000,000</u>	<u>(12,400,000)</u>	<u>22,062,500</u>	<u>198,562,500</u>	

Notes:

- All dates are shown day/month/year.
- The vesting period of the options is from the date of grant until the commencement of the exercise period.
- The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised.
- The Company allotted 1,976,995,036 rights shares on 23rd March, 2006. Pursuant to the terms of the Scheme, the exercise price and number of shares that can be subscribed for under the Scheme are required to be adjusted as a result of the rights issue with effect from 23rd March, 2006.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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CONNECTED TRANSACTION

On 23rd January, 2006, the Company entered into an acquisition agreement as the purchaser with Mr. Chan Hoi Lam (“Mr. Chan”), an executive Director, as the vendor pursuant to which Mr. Chan conditionally agreed to sell and the Company conditionally agreed to purchase 1,900,000 ordinary shares of Vevion Hong Kong Limited (“Vevion”) (the “Sale Shares”), representing 19% of the equity interests in Vevion.

The transaction was entered into by the Company for the purpose of diversifying its businesses. The business and customer base of Vevion will further bring synergy to the Group and enable the Group to explore new market opportunities.

The consideration for the Sale Shares is HK\$9,500,000, which is satisfied as to HK\$1,000,000 by way of deposit, with HK\$1,000,000 payable on or before 3rd February, 2006 and the balance of HK\$7,500,000 payable upon the completion of the sale and purchase of the Sale Shares.

Mr. Chan is an executive Director and is, therefore, a connected person of the Company under the Listing Rules. Vevion is wholly owned by Mr. Chan, and is therefore an associate of Mr. Chan for the purposes of the Listing Rules and a connected person of the Company under the Listing Rules. As such, the transaction constitutes a connected transaction for the Company under the Listing Rules.

CONTINUING CONNECTED TRANSACTION

On 30th May, 2006, Climax Paper Converters, Limited (“Climax Paper”), a wholly-owned subsidiary of the Company, entered into a supply agreement (the “Supply Agreement”) as the seller with Easyfil (Hong Kong) Company Limited (“Easyfil HK”) as the buyer relating to the ongoing supply and sales of notebooks, photo albums, gift items and other stationery to Easyfil HK. Easyfil HK was wholly-owned by Vevion and was disposed in December 2005 to Fullman Corporation Limited, another company wholly-owned by Mr. Chan. Accordingly, Easyfil HK remained an associate and connected person of the Company for the purpose of the Listing Rules.

The supply of paper products pursuant to the Supply Agreement is consistent with the business and commercial objectives of the Group and will help utilise the excess production capacity of the Group’s factories from time to time. Such supply of paper products also provides constant revenue to the Group.

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The term of the Supply Agreement is two years commencing on 1st April, 2005 until 31st March, 2007, subject to earlier express rights of termination. For the year ended 31st March, 2006, Climax Paper received an aggregate consideration of approximately HK\$2,133,000, which (being above the de-minimis exemption from disclosure) should have been announced by the Company during that year under the Listing Rules. The delay in disclosure, as announced by the Company on 2nd June, 2006, was due to an oversight of the Company.

The aggregate consideration for the paper products supplied during the last financial year and expected to be supplied during the current financial year, on an annual basis, is less than HK\$10,000,000 but, by reference to certain of the percentage ratios prescribed by the Listing Rules, exceed 2.5% (whilst being less than 25%). Accordingly, the supply of paper products pursuant to the Supply Agreement represents a continuing connected transaction for the Company under the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

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CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on pages 12 to 19.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 36 to the consolidated 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

Kan Shiu Cheong, Frederick

Chairman

Hong Kong

24th July, 2006