

The directors present their annual report and the audited financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 28 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 33.

The directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

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

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 March 2006, no aggregate amount of distributable reserves was available for distribution to equity shareholders of the Company.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in notes 27 to the financial statements.

DIRECTORS

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

Executive directors:

Zheng Yingsheng	
Zhou Li Yang	
Wong Kwan	(appointed on 24 May 2006)
Chan Yiu Keung	(appointed on 24 May 2006)
Cheung Kwok Yu	(appointed on 24 May 2006)
Lin Xizhong	(appointed on 13 June 2006)

DIRECTORS (Continued)

Executive directors: (Continued)

Fan Di	(resigned on 24 May 2006)
Chen Gang (alternate to Fan Di)	(appointed on 23 December 2005 and resigned on 24 May 2006)
Li Xinggui	(resigned on 31 December 2005)
Wu Shiyue	(resigned on 30 August 2005)

Non-executive directors:

Robert Fung Hing Piu	
Wang Shizhen	(resigned on 24 May 2006)

Independent non-executive directors:

Victor Yang	
Anwar Ibrahim	(appointed on 24 May 2006)
Lee G. Lam	(appointed on 24 May 2006)
Iain Ferguson Bruce	(resigned on 24 May 2006)
Barry John Buttifant	(resigned on 24 May 2006)

In accordance with Clauses 86 and 87 of the Company's Bye-Laws, Messrs. Wong Kwan, Lin Xizhong, Chan Yiu Keung, Cheung Kwok Yu, Anwar Ibrahim and Lee G. Lam will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

Each of Wong Kwan, Chan Yiu Keung, Cheung Kwok Yu, Anwar Ibrahim and Lee G. Lam has entered into a service agreement with the Company for a period of two years commencing 24 May 2006 and Lin Xizhong has entered into a service agreement with the Company for a period of two years commencing 13 June 2006. Fan Di and Wu Shiyue resigned as director of the Company on 24 May 2006 and 30 August 2005 respectively and their service agreements were terminated simultaneously.

Other than as disclosed above, no director being 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).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

(a) Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Chen Gang	Beneficial owner	12,360,000	0.23%
	Held by spouse (<i>Note 1</i>)	50,800,000	0.93%
		<u>63,160,000</u>	<u>1.16%</u>
Robert Fung Hing Piu	Beneficial owner	4,305,437	0.08%
	Held by controlled corporation (<i>Note 2</i>)	60,000,000	1.10%
	Held by trust (<i>Note 3</i>)	63,604,530	1.17%
		<u>127,909,967</u>	<u>2.35%</u>
Iain Ferguson Bruce	Beneficial owner	5,000,000	0.09%
Barry John Buttifant	Beneficial owner	1,000,000	0.02%

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Fan Di	Beneficial owner	82,000,000	82,000,000
Zheng Yingsheng	Beneficial owner	51,500,000	51,500,000
Zhou Li Yang	Beneficial owner	20,500,000	20,500,000
Wang Shizhen	Beneficial owner	7,000,000	7,000,000
Robert Fung Hing Piu	Beneficial owner	3,500,000	3,500,000
Iain Ferguson Bruce	Beneficial owner	3,500,000	3,500,000
Barry John Buttifant	Beneficial owner	3,500,000	3,500,000
Victor Yang	Beneficial owner	2,000,000	2,000,000

Notes:

1. Chen Gang is deemed to be interest in 50,800,000 ordinary shares of the Company, being the interest held beneficially by his spouse.
2. The shares are held by First Horizon Limited, which is 100% owned by Robert Fung Hing Piu. Therefore, Robert Fung Hing Piu is deemed to be interested in these shares.
3. Robert Fung Hing Piu is deemed to be interested in 63,604,530 ordinary shares of the Company as he is one of the trustees of Sir Kenneth Fung Ping Fan Foundation Trust I, a charitable foundation.

Other than as disclosed above, none of the 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 as at 31 March 2006.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Details of the share option schemes of the Company, in which the directors of the Company are entitled to participate, are set out in note 30 to the financial statements. The Company granted 388,500,000 share options during the year, and the remaining 24,656,500 share options could be granted under the Company's share option scheme.

The closing prices of the Company's shares immediately before 6 April 2005, 29 August 2005 and 17 February 2006, the dates of grant, were HK\$0.067, HK\$0.062 and HK\$0.025 respectively.

The directors of the Company are of the view that the value of the theoretical value of the options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors of the Company believe that any calculation of the value of the options will not be meaningful and may be misleading to shareholders of the Company in the circumstances.

Other than as disclosed above and in note 30, at no time during the year was the Company, its holding company, or any of its fellow subsidiaries or 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, and none of the directors, their spouses or 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, its holding company, or any of its fellow subsidiaries or 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

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, as at 31 March 2006, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Farsight (Note)	Beneficial owner	63,854,189	1.17%
	Interest in corporation	982,368,894	18.07%
			19.24%
DiChain Holdings	Beneficial owner	982,368,894	18.07%
Smooth Development Investments Limited	Beneficial owner	1,100,000,000	20.23%
Sunny State Investments Limited	Beneficial owner	333,330,000	6.13%

Note: Farsight is interested in more than one-third of the voting shares of DiChain Holdings and is deemed to be interested in the 982,368,894 shares in the issued share capital of the Company beneficially owned by DiChain Holdings.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 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 of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

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 30 to the financial statements.

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.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest customers and five largest customers taken together accounted for 17% and 53% respectively of the Group's total sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 16% and 34% respectively of the Group's total purchases for the year.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

SUFFICIENCY OF PUBLIC FLOAT

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

POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group are set out in note 35 to the financial statements.

AUDITORS

During the year, Messrs. Deloitte Touche Tohmatsu, who acted as auditors of the Company for the past four years resigned and CCIF CPA Limited were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, CCIF CPA Limited.

On behalf of the Board

Wong Kwan

CHAIRMAN

26 July 2006