

The Board is pleased to present their report and the audited financial statements for the year ended 30th June 2006.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries and the Group's jointly controlled entity as at 30th June 2006 are set out in notes 16 and 35 to the financial statements.

### RESULTS

The results of the Group for the year ended 30th June 2006 are set out in the consolidated income statements on page 29 of the annual report.

The Board did not recommend the payment of a dividend during the year.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 80 of the annual report.

### SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTE

During the year, the Company made a consolidation exercise involving (i) the share consolidation whereby six shares are consolidated into one consolidated share and (ii) the capital reduction under which the paid up capital of the consolidated shares are reduced from HK\$0.06 per consolidated shares to HK\$0.01 per new share by cancellation of HK\$0.05 paid up capital for each consolidation share. The amount arising from the capital reduction be credited to the contributed surplus account of the Company and applied for the partial elimination of accumulated losses of the Company. The share consolidation and share reduction has been completed on 30th March 2006.

During the year, the Company issued and allotted issued and allotted 248,820,987 shares in the Company of HK\$0.01 each at the range from HK\$0.324 to HK\$0.36 per share.

As a result of the exercise of the options to subscribe for shares in the Company, the Company further issued and allotted a total number of 7,219,995 shares of HK\$0.01 each at exercise prices from HK\$0.348 to HK\$0.36 per share, details of which are set out in note 25 to the financial statements.

Details of the movements in the share capital, share options and convertible note of the Company during the year are set out in notes 24 and 25 to the financial statements respectively.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

### SUBSIDIARIES AND JOINTLY CONTROLLED ENTITY

Particulars of the Company's subsidiaries and the Group's jointly controlled entity as at 30th June 2006 are set out in notes 16 and 35 to the financial statements.

# Directors' Report

## DIRECTORS

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

### Executive Directors:

Wong Kam Fu (*Chairman*)

Tam Wai Keung, Billy (*Vice President*) (appointed on 26th January 2006)

Lew Mon Hung

Wong Hong Loong

Sin Chi Keung, Mega (appointed on 26th January 2006)

Wong Hoi Keung (resigned on 24th January 2006)

Song Xiao Hai (resigned on 13th April 2006)

Yi Xing Wu (resigned on 26th August 2006)

### Independent Non-Executive Directors:

Wong Che Man, Eddy

Ha Ping

Tang King Fai, Kelvin (appointed on 22nd May 2006)

Yu King Wah (resigned on 23rd February 2006)

Cheng Kong Ming (resigned on 2nd November 2005)

In accordance with clause 99 of the Company's Bye-laws, Ms. Ha Ping and Wong Che Man, Eddy will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with clause 102(B) of the Company's Bye-laws, Mr. Tam Wai Keung, Billy, Mr. Sin Chi Keung, Mega and Mr. Tang King Fai, Kelvin, being the newly appointed directors will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of each independent non-executive director is the period from the date of appointment up to his retirement by rotation as required by the Company's Bye-laws.

No director being proposed for re-election at the forthcoming annual general meeting has any 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.

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

During the year ended 30th June 2006, the company repurchased its own shares on the Stock Exchange. Details are as follows:

<b>Date of repurchase</b>	<b>Number of shares repurchased</b>	<b>Highest price paid per share</b> <i>HK\$</i>	<b>Lowest price paid per share</b> <i>HK\$</i>	<b>Aggregate consideration paid</b> <i>HK\$</i>
27th October 2005	450,000	0.234	0.228	103,500
28th October 2005	13,000,000	0.24	0.18	2,863,500

The repurchased shares were subsequently cancelled and accordingly, the issued share capital of the Company was reduced by the nominal value thereof and the nominal value of shares repurchased amounted to HK\$807,000.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## DIRECTORS' INTERESTS IN SECURITIES

At 30th June 2006, the interests and short positions of the Directors and their respective associates in the shares, underlying shares and convertible notes of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

## Directors' Report

### Long positions in shares, underlying shares and convertible notes of the Company

Name of director	Number of shares held		Underlying shares		Total interests	Approximate percentage (including underlying shares) of issued share capital
	Personal interest	Corporate interest	Share options	Convertible notes		
Wong Kam Fu	22,555,000	483,029,423 <i>(Note 1)</i>	33,333,332	Nil	538,917,755	22.46
Tam Wai Keung, Billy	Nil	54,500,000	3,333,333	Nil	57,833,333	2.41
Lew Mon Hung	Nil	Nil	33,333,332	Nil	33,333,332	1.39
Yi Xing Wu	10,075,000	303,333,333 <i>(Note 2)</i>	1,666,667	Nil	315,075,000	13.13
Wong Hong Loong	Nil	Nil	18,833,333	Nil	18,833,333	0.78
Sin Chi Keung, Mega	834	Nil	833,333	Nil	834,167	0.03
Wong Che Man, Eddy	Nil	Nil	499,999	Nil	499,999	0.02
Ha Ping	Nil	Nil	499,999	Nil	499,999	0.02

Notes:

- 372,404,423 and 110,625,000 shares are held by Sheung Hai Developments Limited ("Sheung Hai") and Alpha Logistics Group Limited ("Alpha Logistics") respectively and Sheung Hai and Alpha Logistics are wholly-owned by Mr. Wong Kam Fu. By virtue of SFO, Mr. Wong Kam Fu was deemed to be interested in all of the 483,029,423 shares.
- 303,333,333 shares are held by China Sound Limited ("China Sound") and China Sound is wholly-owned by Mr. Yi Xing Wu. By virtue of SFO, Mr. Yi Xing Wu was deemed to be interested in all of the 303,333,333 shares.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares, convertible notes or debentures of the Company or any of its associated corporations as at 30th June 2006.

## SHARE OPTION

Particulars of the share option scheme of the Company are set out in note 25 to the financial statements.

Details of the movements in the share options during the year ended 30th June 2006 were as follows:

Name or category of participants	Date of grant	Exercisable period	Exercise price HK\$	Outstanding as at 01.07.2005	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 30.06.2006	Market value	Option
										per share at date of grant HK\$	value per share HK\$
Wong Kam Fu	18.10.2004	18.10.2004 - 17.10.2006	0.4020	16,666,666	-	-	-	-	16,666,666	0.3960	0.12111
	07.02.2006	07.02.2006 - 06.02.2008	0.3480	-	16,666,666	-	-	-	16,666,666	0.3420	0.093
Lew Mon Hung	18.10.2004	18.10.2004 - 17.10.2006	0.4020	16,666,666	-	-	-	-	16,666,666	0.3960	0.12111
	07.02.2006	07.02.2006 - 06.02.2008	0.3480	-	16,666,666	-	-	-	16,666,666	0.3420	0.093
Tam Wai Keung, Billy	07.02.2006	07.02.2006 - 06.02.2008	0.3480	-	3,333,333	-	-	-	3,333,333	0.3420	0.093
Wong Hong Loong	18.10.2004	18.10.2002 - 17.10.2006	0.4020	8,333,333	-	-	-	-	8,333,333	0.3960	0.12111
	07.02.2006	07.02.2006 - 06.02.2008	0.3480	-	10,500,000	-	-	-	10,500,000	0.3420	0.093
Sin Chi Keung, Mega	07.02.2006	07.02.2006 - 06.02.2008	0.3480	-	833,333	-	-	-	833,333	0.3420	0.093
Ha Ping	04.11.2004	04.11.2004 - 03.11.2006	0.3600	166,666	-	-	-	-	166,666	0.3600	0.10935
	07.02.2006	07.02.2006 - 06.02.2008	0.3480	-	333,333	-	-	-	333,333	0.3420	0.093
Wong Che Man, Eddy	04.11.2004	04.11.2004 - 03.11.2006	0.3600	166,666	-	-	-	-	166,666	0.3600	0.10935
	07.02.2006	07.02.2006 - 06.02.2006	0.3480	-	333,333	-	-	-	333,333	0.3420	0.093
Song Xia Hai	18.10.2004	18.10.2004 - 17.10.2006	0.4020	16,666,666	-	-	(16,666,666)	-	-	0.3960	0.12111
Wong Hoi Keung	18.10.2004	18.10.2004 - 17.10.2006	0.4020	12,333,333	-	-	(12,333,333)	-	-	0.3960	0.12111
Yi Xing Wu	02.11.2005	02.11.2005 - 01.11.2007	0.2820	-	1,666,666	-	-	-	1,666,666	0.2820	0.0502254
Cheng Kong Ming	04.11.2004	04.11.2004 - 03.11.2006	0.3600	166,666	-	-	(166,666)	-	-	0.3600	0.10935
Yu King Wah	07.02.2006	02.07.2006 - 06.02.2008	0.3480	-	333,333	-	(333,333)	-	-	0.3420	0.093
Total for directors				71,166,662	50,666,663	-	(29,499,998)	-	92,333,327		

## Directors' Report

Name or category of participants	Date of grant	Exercisable period	Exercise price HK\$	Outstanding as at 01.07.2005	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 30.06.2006	Market value	Option
					during the year	during the year	during the year	during the year		per share at date of grant of options HK\$	value per share HK\$
(b) Employees	04.11.2004	04.11.2004 – 03.11.2006	0.3600	12,834,990	-	(5,921,662)	-	-	6,913,328	0.3600	0.10935
	21.10.2005	21.01.2005 – 20.01.2007	0.4080	3,333,333	-	-	-	-	3,333,333	0.4080	0.124902
	03.11.2005	01.11.2006 – 02.12.2007	0.2940	-	1,000,000	-	(1,000,000)	-	-	0.2940	0.0468192
	03.11.2005	01.04.2006 – 01.12.2007	0.2940	-	833,333	-	(833,333)	-	-	0.2940	0.0468192
	07.02.2006	07.02.2006 – 06.02.2008	0.3480	-	3,666,665	(465,000)	-	-	3,201,665	0.3420	
Total for employees				16,168,323	5,499,998	(6,386,662)	(1,833,333)	-	13,448,326		
(c) Others	04.11.2004	04.11.2004 – 03.11.2006	0.360	833,333	-	(833,333)	-	-	-	0.3600	0.10935
	09.11.2005	01.04.2006 – 08.12.2007	0.3480	-	3,333,332	-	-	-	3,333,332	0.3420	0.0511104
	10.11.2005	10.11.2005 – 09.11.2006	0.3600	-	9,166,664	-	-	(1,666,666)	7,499,998	0.3480	0.039248
	25.11.2005	25.11.2005 – 24.11.2006	0.3600	-	2,499,999	-	-	-	2,499,999	0.3480	0.0423798
	28.11.2005	28.11.2005 – 27.11.2006	0.3600	-	333,333	-	-	-	333,333	0.3480	0.0419094
	01.12.2005	01.12.2005 – 30.11.2006	0.3600	-	3,333,332	-	-	-	3,333,332	0.3540	0.047358
	07.02.2006	07.02.2006 – 06.02.2008	0.3480	-	1,999,999	-	-	-	1,999,999	0.3420	0.093
Total for others				833,333	20,666,659	(833,333)	-	(1,666,666)	18,999,993		
Total for Scheme				88,168,318	76,833,320	(7,219,995)	(31,333,331)	(1,666,666)	124,781,646		

### Valuation of share option

The valuation of share options is set out in note 25 to the financial statements.

### RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit scheme for the year ended 30th June 2006 are set out in note 2(l) to the financial statements.

### DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests in Securities" disclosed above, at no time during the year was the Company or its subsidiaries or jointly controlled entity a party to any arrangement that enabled any Director to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate.

None of the Directors or 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 or any of its subsidiaries was a party and in which a director of the Company or any of its subsidiaries had a material interest, whether directly, subsisted at the end of the year or at any time during the year.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

During the year up to the date hereof, none of Directors or the management shareholders or the substantial shareholders of the Company, or any of their respective associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received from each of its independent non-executive Directors written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th June 2006, so far as known to the Directors or chief executive of the Company, the following persons/ entity are the substantial shareholders (other than the interests and short positions of the Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of the nominal value of any class of any share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company.

## Directors' Report

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

Name	Type of interest	Number of shares held	Total interest	Approximate interest as a percentage of the issued share capital
Lam Ching Kui	Personal	76,446,333	122,912,666	5.12
	Corporate	46,466,333 (Note 1)		
Chan Oi Mo	Spouse	122,912,666 (Note 2)	122,912,666	5.12
Hui Chi Ming	Corporate	245,820,987	245,820,987	10.24
Barta Holdings Ltd.	Corporate	91,500,000 (Note 3)	91,500,000	3.81
Feliz Group Ltd.	Corporate	154,320,987 (Note 4)	154,320,987	6.43

#### Notes:

- 46,466,333 shares are held by Chinese Success Limited, which is wholly-owned by Mr. Lam Ching Kui. By virtue of SFO, Mr. Lam Ching Kui is deemed to be interested in all of the 46,466,333 shares.
- Ms. Chan Oi Mo is the spouse of Mr. Lam Ching Kui. By virtue of SFO, Ms. Chan Oi Mo is deemed to be interested in all of Mr. Lam Ching Kui's interests in the 122,912,666 shares.
- 91,500,000 shares are held by Barta Holdings Limited, which is wholly-owned by Mr. Hui Chi Ming. By virtue of SFO, Mr. Hui Chi Ming is deemed to be interested in all of the 91,500,000 shares.
- 154,320,987 shares are held by Feliz Group Limited, which is wholly-owned by Mr. Hui Ching Ming. By virtue of SFO, Mr. Hui Chi Ming is deemed to be interested in all of the 154,320,987 shares.

Other than as disclosed above, the Company has not been notified by any other person (other than the Directors or chief executives of the Company) who has interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance or had otherwise notified the Company as at 30th June 2006.



### MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year under review, except the following:

On 2nd March 2006, Mr. Yi Xing Wu, an executive director at the material time, has breached the internal code of conduct of the Company by disposing shares through his wholly-owned company, China Sound Limited, on the market during the prohibited period as prescribed by the internal code of conduct. The details have been disclosed in the announcement of the Company dated 6th March 2006.

### DONATIONS

During the year, the Group made charitable donations totalling HK\$1,020.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30th June 2006, the five largest customers accounted for approximately 35% of the Group's turnover, while the largest and five largest accounted for approximately 49% and 70% of the Group's purchases respectively.

At no time during the year, were any of the Directors, their associates or the shareholders of the Company, which to the knowledge of the directors own more than 5% of the Company's issued share capital, have any interests in the above customers or suppliers.

### PRE-EMPTIVE RIGHTS

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

### PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules at all times during the year under review.

### CORPORATE GOVERNANCE

The information set out in pages 19 to 25 and information incorporated by reference constitutes the Corporate Governance Report of the Company.

### POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 32 to the financial statements.

## Directors' Report

### AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the recommendations set out in "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code. The duties of the audit committee include reviewing the Company's annual reports and interim reports and providing advice and comments thereon to the Directors. The audit committee is also responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

As at the date of this report, the audit committee comprises three independent non-executive Directors, namely, Mr. Wong Che Man, Eddy, Ms. Ha Ping and Mr. Tang King Fai, Kelvin with Mr. Wong Che Man, Eddy being the chairman of the committee. During the year, the audit committee has held three meetings. The audited financial statements of the Company for the year ended 30th June 2006 have been reviewed by the audit committee.

### AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Shing Wing (HK) CPA Limited as auditors of the Company.

On behalf of the Board

**Wong Kam Fu**

*Chairman*

Hong Kong, 16th October 2006