

# **DIRECTORS' REPORT**

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 30 June 2006.

## **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The activities of its principal subsidiaries are engaged in investment holding, property development and investment, and general trading.

## **RESULTS**

The results of the Group for the year ended 30 June 2006 are set out in the consolidated income statement on page 19.

## **PRINCIPAL SUBSIDIARIES**

The details of the Company's principal subsidiaries are set out in note 39 to the consolidated financial statements.

## **INVESTMENT PROPERTIES**

The Group's investment properties were revalued as at 30 June 2006 by a firm of independent professional property valuers and the gain arising on change in fair value of investment properties of approximately HK\$54,656,000 had been credited directly to consolidated income statement. Details of these are set out in note 15 to the consolidated financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

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

## **DISTRIBUTABLE RESERVES OF THE COMPANY**

As at 30 June 2006, the Company had no reserves available for distribution.

## **DIRECTORS**

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

**Executive directors:**

Law Fong (*Chairman*)  
Chen Te Kuang Mike

**Non-executive director:**

Oung Shih Hua, James

**Independent non-executive directors:**

Zhu Pei Qing  
Lu Ti Fen  
Kwok Wai Chi

In accordance with the provisions of the Company's Bye-laws, Messrs. Chen Te Kuang Mike and Zhu Pei Qing retire and, being eligible, offer themselves for re-election.

The term of office for each non-executive director or independent non-executive director, is the period up to his/her retirement by rotation in accordance with the Company's Bye-laws.

None of the directors being 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).

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

**DIRECTOR'S INTERESTS IN SHARES AND UNDERLYING SHARES**

As at 30 June 2006, the interests and short positions of the directors of the Company and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“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 The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies (the “Model Code”) were as follows:

Ordinary shares of HK\$0.50 each of the Company (long position):

<b>Name of director</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Chen Te Kuang Mike	Beneficial owner	5,000,000	0.95%
	Held by a controlled corporation ( <i>Note</i> )	<u>21,035,000</u>	<u>3.98%</u>
		26,035,000	4.93%
Oung Shih Hua, James	Beneficial owner	5,000,000	0.95%

*Note:* These shares are held by Goldenfield Equities Limited, a company in which Chen Te Kuang Mike has beneficial interest.

Other than as disclosed above, as at 30 June 2006, none of the directors of the Company had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the persons (other than the directors of the Company) who had interests and short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long position:

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Five Star Investments Limited ("Five Star") (Note)	Beneficial owner	267,815,017	50.7%

*Note:* Five Star is owned as to 67% by Oung Chin Liang Fung and 33% by Lilian Oung.

Other than as disclosed above, as at 30 June 2006, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

## SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

Details of the Company's share option scheme are set out in note 31 to the consolidated financial statements. No share options have been granted under the scheme since its adoption.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the spouses or children under the age of 18 of the directors had any right to subscribe for the securities of the Company or had exercised such rights during the year.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Details of the directors' interest in contracts of significance are set out in note 36 to the consolidated financial statements.

Save as disclosed above, there was no other 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.

## **PLEDGE OF SHARES BY CONTROLLED SHAREHOLDER**

The Group entered into a loan agreement with a bank during the year ended 30 June 2005 for which security has been provided by Five Star, the controlling shareholder of the Company. Five Star has pledged its holding of 267,815,017 ordinary shares of HK\$0.50 each in the Company to the bank in order to secure the credit loan facilities granted to the Group.

## **DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE**

In accordance with the disclosure requirements of Rules 13.18 and 13.21 of The Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rules"), the following disclosure is included in respect of the Group's loan agreement, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to the loan agreement entered into between the Group and a bank in June 2006 relating to a 300-months loan facility up to HK\$550 million, a default event would arise if Five Star ceases to be the beneficial owner of at least 50.5% (in aggregate) of the issued share capital of the Company.

## **CONNECTED TRANSACTIONS**

Details of the connected transactions entered into during the year are set out in note 36 to the consolidated financial statements.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The largest customer of the Group by itself and together with the other four largest customers accounted for approximately 86% and 14%, respectively of the Group's turnover for the year under review.

The largest supplier of the Group by itself and together with the other four largest suppliers accounted for approximately 88% and 12%, respectively of the Group's purchase for the year under review.

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.

## **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.

## **CORPORATE GOVERNANCE**

Details of the Company's corporate governance practice are set out in the "Corporate Governance Report" section to the annual report.

## **PURCHASE, SALE AND REDEMPTION OF SHARES**

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

## **AUDIT COMMITTEE**

The audit committee comprises one non-executive director and three independent non-executive directors and reports to the board of the directors. The audit committee meets with the Group's senior management regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Company.

## **EMOLUMENT POLICY**

The emolument policy of the employees of the Group is set up by the executive directors of the Company on the basis of their merit, qualifications and competence.

The emolument of the directors of the Company is determined by the board of directors of the Company after recommendation from the Remuneration Committee, having regard to the time commitment and responsibilities of the directors, the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the directors and eligible employees, details of the scheme is set out in note 31 to the consolidated financial statements.

## **PUBLIC FLOAT**

As at the date of this report, based on the information publicly available to the Company and within the knowledge of the directors of the Company, over 25% of the issued share capital of the Company was held by the public as required under the Listing Rules.

## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events are set out in note 38 to the consolidated financial statements.

## **AUDITORS**

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Law Fong**

*CHAIRMAN*

Hong Kong

27 October 2006