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## Report of the Directors

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The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30th June, 2006.

### **GROUP'S ACTIVITIES AND OPERATIONS**

The principal activities of the company and the group are property development and investment. The principal activities and other particulars of the subsidiaries are set out in note 14 on the financial statements.

The geographical analysis of the group's turnover and operating profit is set out in note 3 on the financial statements.

### **JOINTLY CONTROLLED ENTITIES**

Particulars of jointly controlled entities at 30th June, 2006 are set out in note 15 on the financial statements.

### **FINANCIAL STATEMENTS**

The profit of the group for the year ended 30th June, 2006 and the state of affairs of the company and of the group at that date are set out in the financial statements on pages 20 to 56.

A first interim dividend of HK\$0.10 per share and a special dividend of HK\$0.50 per share were paid on 15th June, 2006. A second interim dividend of HK\$0.30 per share is payable on 31st October, 2006. The directors now recommend that a final dividend of HK\$0.10 per share and a special dividend of HK\$1.00 per share be paid in respect of the year ended 30th June, 2006 and that HK\$10,000,000 be transferred to general reserve.

Subject to the approval by shareholders at the forthcoming Ordinary Yearly Meeting, the final dividend will be payable on 2nd February, 2007.

### **FIXED ASSETS**

Movements in fixed assets during the year are set out in note 13 on the financial statements.

### **DIRECTORS**

The directors during the year and up to the date of this report are given on page 2 and further information regarding directors is given on page 18.

The company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and still considers the independent non-executive directors to be independent.

In accordance with article 122 of the company's articles of association, Dr. Henry Ngan, Dr. Liu Lit-mo, Messrs. Fritz Helmreich, Anthony Grahame Stott and Tse Yiu-wah retire from the board and, being eligible, offer themselves for re-election (for details of directors, see Appendix I of the explanatory statement on re-election of directors and general mandate for repurchase of own shares accompanying this annual report).

## Report of the Directors (Continued)

### DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2006, the interests and short positions of the directors and chief executive of the company 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 ("SFO")) as recorded in the register required to be kept under section 352 of the SFO 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:

	Ordinary shares of HK\$2 each				Percentage of total issued shares
	Personal interests	Family interests	Other interests	Total ordinary shares held	
NGAN Kit-ling	4,848,345	–	33,468 (Note)	4,881,813	10.71%
Dr. NGAN Kit-keung	6,941,013	1,250	33,468 (Note)	6,975,731	15.30%
Dr. Henry NGAN	7,173,125	250	33,468 (Note)	7,206,843	15.81%
Dr. LIU Lit-mo	62,250	–	–	62,250	0.14%
Fritz HELMREICH	50,000	–	–	50,000	0.11%
Anthony Grahame STOTT	600	–	–	600	–
TSE Yiu-wah	137,800	–	–	137,800	0.30%

Note: The 33,468 shares in the company are included in the estate of the late Madam WONG Yick-mui.

All the interests disclosed above represent long positions as at 30th June, 2006.

Save as disclosed above, as at 30th June, 2006, none of the directors or chief executive of the company or any of their spouses or children under 18 years of age had held any interests or short positions in the shares, underlying shares or debentures of the company or any of its associated corporations as defined in the SFO.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

During the year under review, the company did not grant to any director or chief executive or to the spouse or children under 18 years of age of any such director or chief executive any right to subscribe for shares of the company.

At no time during the year was the company or any of its 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.

## Report of the Directors (Continued)

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The company has been notified of the following interests in the company's issued shares at 30th June, 2006, amounting to 5% or more of the shares in issue:

<u>Substantial shareholders</u>	<u>Ordinary shares held</u>	<u>Percentage of total issued shares</u>
NGAN Kit-ling	4,881,813(note)	10.71%
Dr. NGAN Kit-keung	6,975,731(note)	15.30%
Dr. Henry NGAN	7,206,843(note)	15.81%
CHAN Kwan Shat & WONG Wai Gin	5,553,200	12.18%
<u>Other persons</u>		
CHEE Ying Cheung & CHING Yung Yu	4,474,600	9.81%

Note : There is a duplication of 33,468 shares which are included in the estate of the late Madam WONG Yick-mui.

All the interests disclosed above represent long positions as at 30th June, 2006.

Save as disclosed above, so far as the directors are aware, as at 30th June, 2006, none of the above shareholders had held any interests or short positions in the shares, underlying shares or debentures of the company or any of its associated corporations as defined in the SFO.

Apart from the foregoing, as at 30th June, 2006, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the company.

### DIRECTORS' INTEREST IN CONTRACTS

Madam Ngan Kit-ling is the sole proprietor of Ngan & Co., one of the company's solicitors, and as such has an interest in legal fees and expenses paid by the company to that firm.

Apart from the foregoing, no contract 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, subsisted at the end of the year or at any time during the year.

### DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming ordinary yearly meeting has an unexpired service contract with the company which is not determinable by the company within one year without payment of compensation, other than normal statutory obligations.

### EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

Details of emoluments of the directors and the five highest paid directors/employees of the company are set out in note 7 on the financial statements.

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

During the year, neither the company nor any of its subsidiaries has repurchased, sold or redeemed any of the company's listed securities.

### SHARE CAPITAL

Particulars of the movements in the share capital of the company during the year are set out in note 24 on the financial statements.

## Report of the Directors (Continued)

### EMPLOYEES' RETIREMENT SCHEMES

During the year, the company operated two separate non-contributory defined benefit retirement schemes, namely, "China Motor Bus General Monthly Rated Staff Retirement Scheme" and "China Motor Bus Senior Executive Retirement Scheme" for its monthly rated staff and senior executives respectively. Both schemes are formally established under trust and registered with the Registrar of Occupational Retirement Schemes. The assets of the schemes are held by an independent trustee, HSBC International Trustee Limited. The members' benefits are determined based on their final remuneration and length of service. The company's contributions to the schemes are made in accordance with the recommendations of independent actuaries who carry out actuarial valuations of the schemes at regular intervals, currently annually.

The actuarial valuation of the two defined benefit retirement schemes as at 30th June, 2006 showed that there were sufficient assets in each of the two schemes to cover the on-going liabilities of the schemes. The actuary of these schemes is Watson Wyatt Hong Kong Limited. In the actuarial valuations, the aggregate cost valuation method was used. The major assumptions used in these valuations were: Investment Return at 2.5% per annum; Salary Escalation at 2.5% per annum; and Normal Retirement Age 65. Other relevant information extracted from the valuations pertaining to these schemes is set out below:-

- (a) China Motor Bus General Monthly Rated Staff Retirement Scheme
  - (i) The market value of the scheme assets as at 30th June, 2006 was HK\$1,061,000.
  - (ii) The on-going funding level of the scheme was 181%.
  - (iii) The on-going basis funding surplus in the scheme was HK\$476,000.
  
- (b) China Motor Bus Senior Executive Retirement Scheme
  - (i) The market value of the scheme assets as at 30th June, 2006 was HK\$10,258,000.
  - (ii) The on-going funding level of the scheme was 114%.
  - (iii) The on-going basis funding surplus in the scheme was HK\$1,251,000.

Note: The obligations in respect of defined benefit retirement schemes in the financial statements are calculated using the projected unit credit method (see note 1(n)(ii) on the financial statements).

As from 1st December, 2000, the group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement schemes. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000.

For the defined contribution retirement scheme, the contributions are expensed as incurred and may not be reduced by contributions forfeited by those employees who have left the scheme as all would be fully vested in the contributions.

## Report of the Directors (Continued)

### COMMENTARY ON ANNUAL RESULTS

#### Revenue and Operating Profit

Turnover of the group for the year under review comprising rental income from its investment properties amounted to HK\$68 million (2005: HK\$67 million). Operating profit of the group increased to HK\$117.6 million from HK\$77 million in the previous year primarily due to the increase in finance income and other net income. The profit after taxation attributable to shareholders of HK\$395 million (2005: HK\$438 million (as restated)) reflects a reduction in the valuation gains of investment properties for the year in line with prevailing market trends.

#### Liquidity and Financial Resources

At 30th June, 2006, the group had no bank borrowings and had cash and cash equivalents of HK\$1,249 million which were held in the form of short term deposits or cash at bank and in hand.

For the year under review, net cash inflow from operating activities was HK\$56 million (2005: HK\$28 million). Payment for capital investment amounted to HK\$582 million (2005: HK\$10 million). Repayment of loans by and dividends from jointly controlled entities amounted to HK\$15 million and HK\$93 million respectively (2005: HK\$16 million and HK\$29 million respectively). The consolidated cash flow statement for the group for the year ended 30th June, 2006 is set out on pages 24 and 25 of this annual report.

#### Capital Expenditure and Commitments

Capital expenditure incurred during the year amounted to HK\$582 million.

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group's turnover and purchases attributable to the major customers and suppliers during the financial year is as follows:

	<i>Percentage of the Group's total</i>	
	<i>Turnover</i>	<i>Purchases</i>
The largest customer	47%	
Five largest customers in aggregate	79%	
The largest supplier		29%
Five largest suppliers in aggregate		68%

So far as the directors are aware, at no time during the year have the directors, their associates or any shareholder of the company (which to the knowledge of the directors owns more than 5% of the company's share capital) had any interest in these major customers and suppliers.

## Report of the Directors (Continued)

### DISCLOSURE PURSUANT TO LISTING RULE 13.22

At 30th June 2006, the group had the following loans to its affiliated companies (as defined by the Listing Rules):

	Note	Amount HK\$000's	Type	Tenure
Island Land Development Ltd		532,350	Interest free, unsecured loan	No fixed terms of repayment
Hareton Ltd		207,707	Interest free, unsecured loan	No fixed terms of repayment
	15	<u>740,057</u>		

Combined balance sheet of the above affiliated companies at 30th June, 2006 is as follows:

	HK\$000's
Fixed assets	1,072,000
Retirement benefit assets	<u>161</u>
	1,072,161
Current assets	116,539
Current liabilities	<u>(16,929)</u>
	99,610
Non-current liabilities	<u>(37,074)</u>
	<u>1,134,697</u>

Attributable interest to the group at 30th June, 2006 in the above affiliated companies amounted to HK\$567,349,000 (2005 (restated): HK\$463,182,000).

### SUMMARY OF FINANCIAL DATA

A summary of the group's financial data for the last five years is shown on page 57.

### PROPERTIES

Particulars of the properties and property interests of the group are shown on page 58.

### PUBLIC FLOAT

As at the date of this report, the company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the company and within the knowledge of the directors.

### AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Ordinary Yearly Meeting.

By order of the board

NGAN Kit-ling  
Chairman

Hong Kong, 20th October, 2006