

REPORT OF THE DIRECTORS

Annual
Report
2006

14

The directors submit their report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. It provides corporate management services to its group companies. The activities of the Company's principal subsidiaries are set out in note 19 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

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

An interim dividend which was satisfied wholly by a distribution in specie of Winbox International (Holdings) Limited ("Winbox") shares held by the Group was paid in June 2006. The Group held an indirect interest of 38% in the issued share capital of Winbox prior to its listing. Based on the net asset value of Winbox, an interim dividend of approximately HK\$0.149 per share was paid to the shareholders of the Company. Alternatively based on the issue price of Winbox shares, an interim dividend of about HK\$0.2087 per share was paid to the shareholders. The shares of Winbox were listed on the Stock Exchange of Hong Kong Limited on 6 June 2006 and the distribution was completed in June 2006.

The directors recommend the payment of a final dividend of 5 HK cents per ordinary share for the year.

RESERVES

Movements in the other reserves of the Group and the Company during the year are set out in note 31 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$103,000 (2005:HK\$560,000).

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR PROPERTIES

Details of the major properties held for development or sale are set out on page 108.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the company at 31 December 2006 as calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$295,366,000 (2005: HK\$307,834,000), of which HK\$20,032,000 has been proposed as a final dividend for the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 107.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

BORROWINGS

Analysis of the maturity of bank loans and other loans is set out in note 32 to the consolidated financial statements.

SHARE OPTION SCHEME

At 31 December 2006, there was no share option scheme adopted by the Company.

At no time during the year was the Company or any of its associated corporations a party to any arrangement 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 or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

REPORT OF THE DIRECTORS

DIRECTORS

The directors during the year were:

Executive Directors

Mr. Fung Ka Pun *(Executive Co-chairman)*

Dato' Wong Sin Just *(Executive Co-chairman)*

Independent Non-executive Directors

Mr. Ongpin Roberto V.

Mr. Chung Cho Yee, Mico

Mr. Ho Kwan Tat

Dr. Hui Ka Wah, Ronnie

All Independent Non-executive directors have specific contracts with the Company for a period of two years, subject to retirement and re-election at the annual general meeting in accordance with the Company's Bye-laws.

The Company has received annual confirmation of independence from all Independent Non-executive Directors and considered them as independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 3 to 5 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in the section "Connected Transactions", no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION

As at 31 December 2006, the interests of each Director and Chief Executive and their associates in the shares of the Company and any of its associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO and as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies ("Model Code"), were as follows:

Name of director	Number of ordinary shares of the Company held-long positions			Total
	Personal interests	Corporate interests	Other Interests	
Mr. Fung Ka Pun	5,943,197	109,398,484 (Note 1)	—	115,341,681
Dato' Wong Sin Just	2,310,000	—	113,181,750 (Note 2)	115,491,750

Name of associated corporation	Number of ordinary shares of the associated corporation held-long positions		
	Name of director	Personal interests	Other Interests
SBI E2-Capital Limited	Dato' Wong Sin Just	8	— (Note 3)
Boxmore Limited	Mr. Fung Ka Pun	—	2,000 (Note 4)

Notes:

- (1) Mr. Fung Ka Pun has beneficial interests in Bo Hing Limited and Goodwill International (Holdings) Limited ("Goodwill International"), which were interested in 1,862,303 shares and 107,536,181 shares in the Company respectively as at 31 December 2006, representing approximately 27.31% in the issued share capital of the Company. Goodwill International is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders' Interests and Short Positions in the Shares of the Company".
- (2) Dato' Wong Sin Just has beneficial interests in e2-Capital Inc., which was interested in 113,181,750 shares in the Company as at 31 December 2006, representing approximately 28.25% in the issued share capital of the Company. e2-Capital Inc. is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders' Interests and Short Positions in the Shares of the Company".
- (3) Dato' Wong Sin Just holds 8 shares, representing approximately 2% in the issued share capital of SBI E2-Capital Limited.
- (4) The spouse of Mr. Fung Ka Pun has beneficial interest in 2,000 shares, representing 20% in the issued share capital of Boxmore Limited.

Other than as disclosed above, as at 31 December 2006, none of the Directors and Chief Executive and their associates had any other interests in shares in, or debentures of, the Company or any of its associated corporation which had been entered in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

Annual
Report
2006

18

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at 31 December 2006, the following entities have interests or short positions of 5% or more in the issued shares of the Company which were recorded in the Register of Substantial Shareholders maintained under Section 336 of the SFO or had otherwise notified to the Company were as follows:

Name of shareholder	Number of ordinary shares – long positions	Capacity	Percentage of issued share capital	Note
Goodwill International	107,536,181	Beneficial owner	26.84	
e2-Capital Inc.	113,181,750	Beneficial owner	28.25	
Coutts (Cayman) Limited	113,181,750	Trustee	28.25	
Newmark Capital Corporation Limited	64,130,588	Beneficial owner	16.00	1
Newmark Capital Holdings Limited	64,130,588	Interest of controlled corporation	16.00	1
Ng Poh Meng	64,130,588	Interest of controlled corporation	16.00	1
Softbank Investment International (Strategic) Limited	22,750,000	Beneficial owner	5.67	
Strategic Capital Holdings Limited	22,722,000	Beneficial owner	5.67	

Saved as disclosed above, as at 31 December 2006, the Company has not been notified by any persons (other than Directors or Chief Executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which were recorded in the Register of Substantial Shareholders maintained under Section 336 of the SFO.

Note:

(1) Newmark Capital Corporation Limited is wholly-owned by Newmark Capital Holdings Limited which in turn is wholly owned by Mr. Ng Poh Meng.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group had not entered into transactions which constituted connected transactions under the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") and are required to be disclosed in accordance with the requirements of the Listing Rules.

DISCLOSURES UNDER THE LISTING RULES

As at 31 December 2006, the aggregate amount of the financial assistance and guarantees provided by the Group to its affiliated companies namely, SBI E2-Capital Securities Limited, SBI E2-Capital Brokerage Limited and SBI E2-Capital Commodities Limited (hereafter collectively refer as "Affiliated Companies") as defined in the Listing Rules exceeded the relevant percentage ratio of 8% under the Listing Rules. In accordance with Rule 13.22 of the Listing Rules, the pro forma combined balance sheet of the Affiliated Companies as at 31 December 2006 and the Group's attributable interest therein are set out as follows:

	Pro forma combined balance sheet of Affiliated Companies	Group's attributable interest
	HK\$'000	HK\$'000
Non-current assets	35,453	17,372
Current assets	144,559	70,834
Current liabilities	(72,617)	(35,582)
Net current assets	71,942	35,252
Total assets less current liabilities	107,395	52,624
Non-current liabilities	—	—
Net assets	107,395	52,624
Issued capital	55,000	
Reserves	52,395	
Capital and reserves	107,395	

REPORT OF THE DIRECTORS

As at 31 December 2006 the aggregate amount of the financial assistance and guarantees provided by the Group to SECA, an affiliated company as defined in the Listing Rules exceeded the relevant percentage ratio of 8% under the Listing Rules. In accordance with Rule 13.22 of the Listing Rules, the pro forma combined balance sheet of SECA as at 31 December 2006 and the Group's attributable interest therein are set out as follows:

	Balance sheet of an Affiliated Company	Group's attributable interest
	HK\$'000	HK\$'000
Non-current assets	3,122	2,167
Current assets	46,274	32,114
Current liabilities	(18,031)	(12,514)
Net current assets	28,243	19,600
Total assets less current liabilities	31,365	21,767
Non-current liabilities	—	—
Net assets	31,365	21,767
Issued capital	32,794	
Reserves	(1,429)	
Capital and reserves	31,365	

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part throughout the year ended 31 December 2006 in compliance with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules, save for the CG Code Provision A.2.1 that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. However the problem of over concentration of roles and responsibilities on one individual does not exist since the Board is co-managed by two Executive Directors who are the Executive Co-Chairmen of the Company. The Company has conducted a review on the effectiveness of its internal control system, covering all material areas including financial, operational, compliance as well as risk management function. Findings on the review are reported to the Audit Committee and no major issue is identified save for some recommendations to further strengthen controls in certain areas.

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality board, sound internal control, transparency and accountability to all shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this Annual Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the consolidated results of the Group for the year ended 31 December 2006.

SUBSEQUENT EVENTS

In line with our corporate strategy to transform the Company into an integrated investment firm and to allocate our resources in a more efficient and rewarding manner, the management has decided to wind down the business of sourcing and distribution of digital consumer products in 2007.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Mr. Fung Ka Pun
EXECUTIVE CO-CHAIRMAN

Dato' Wong Sin Just
EXECUTIVE CO-CHAIRMAN

14 March 2007