

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 38 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Group at that date are set out in the financial statements on pages 31 to 83.

An interim dividend of HK\$0.005 per share was paid on 6 October 2006. The directors now recommend the payment of a final dividend of HK\$0.005 per share to the shareholders on the register of members on 26 April 2007, estimated to be HK\$21,582,000.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in notes 13 to 15 to the financial statements.

SHARE CAPITAL

Details of the movements in issued share capital of the Company during the year are set out in note 29 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the retained profits of the Company available for cash distribution and/or distribution in specie as computed in accordance with the Companies Law of the Cayman Islands amounted to HK\$38,294,000. Further, the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. As at 31 December 2006, the Company's share premium account amounted to HK\$5,682,256,000.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

Due to the nature of the Group's business, no major suppliers were identified. During the year, less than 30% of the Group's turnover were attributable to the Group's five largest customers.

None of the directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's customer and supplier during the year.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Or Wai Sheun (*Chairman*) (*appointed on 1 April 2006*)

Mr. Yeung Kwok Kwong

Ms. Wong Yuk Ching

Mr. Lam Chi Chung, Tommy

Ms. Chio Koc Ieng (*appointed on 1 April 2006*)

Non-executive director

Mr. Lai Ka Fai

Independent non-executive directors

Mr. Anthony Francis Martin Conway

Mr. Siu Leung Yau

Mr. Liu Kwong Sang

The directors of the Company, including the non-executive director and independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

In accordance with articles 108(A) and (B) and 112 of the Company's articles of association, Mr. Yeung Kwok Kwong, Ms. Wong Yuk Ching, Mr. Lai Ka Fai and Mr. Liu Kwong Sang will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors and chief executive in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Rules Governing the Securities Listing on The Hong Kong Stock Exchange Limited (the "Listing Rules"), were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Capacity and nature of interests	Number of shares and underlying shares held			Percentage of the issued ordinary share capital of the Company (Note 1)
		Ordinary shares	Warrants	Total	
Mr. Or Wai Sheun (Note 4)	Founder and beneficiary of a trust	2,572,167,275	69,897,537	2,642,064,812	61.21%
Mr. Yeung Kwok Kwong	Directly beneficially owned	1,700,000	160,000	1,860,000	0.04%
Ms. Wong Yuk Ching	Directly beneficially owned	6,000,000	600,000	6,600,000	0.15%
Mr. Lam Chi Chung, Tommy	Directly beneficially owned	100,000	—	100,000	0.00%
Mr. Lai Ka Fai	Directly beneficially owned	400,000	30,000	430,000	0.01%

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Long positions in shares and underlying shares of associated corporation — Kowloon Development Company Limited ("KDC")

Name of director	Capacity and nature of interests	Number of ordinary shares held	Number of underlying shares held (Note 2)	Total	Percentage of the issued ordinary share capital of KDC (Note 3)
Mr. Or Wai Sheun (Note 4)	Founder and beneficiary of a trust	448,238,083	382,349,425	830,587,508	72.18%
	Through controlled corporation	185,000	92,500	277,500	0.02%
Mr. Yeung Kwok Kwong (Note 5)	Directly beneficially owned	110,000	55,000	165,000	0.01%
Ms. Wong Yuk Ching (Note 6)	Directly beneficially owned	949,000	—	949,000	0.08%
Mr. Lam Chi Chung, Tommy (Note 7)	Directly beneficially owned	10,000	—	10,000	0.00%
Ms. Chio Koc Ieng (Note 8)	Directly beneficially owned	100,000	—	100,000	0.01%
Mr. Lai Ka Fai (Note 9)	Directly beneficially owned	312,000	156,000	468,000	0.04%

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that were required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

1. As at 31 December 2006, the total number of issued shares in the Company was 4,316,425,295 ordinary shares.
2. On 19 December 2006, KDC announced that it proposed a right issue of 383,560,425 rights shares (the "Rights Issue"). Intellinsight Holdings Limited, a company controlled by Mr. Or Wai Sheun, entered into an underwriting agreement with KDC for the rights issue to underwrite 158,230,384 rights shares of KDC. Intellinsight Holdings Limited also undertook to subscribe or procure to subscribe 224,119,041 rights share of KDC. China Dragon Limited, a company controlled by Mr. Or Wai Sheun, undertook to subscribe or procure to subscribe 92,500 rights shares of KDC. The Rights Issue was completed on 12 February 2007.

Pursuant to the Rights Issue, Mr. Yeung Kwok Kwong undertook to subscribe or procure to subscribe 55,000 rights shares of KDC.

Pursuant to the Rights Issue, Mr. Lai Ka Fai undertook to subscribe or procure to subscribe 156,000 rights shares of KDC.

3. The percentage holding in KDC is calculated based on the number of shares interested or deemed to be interested over 1,150,681,275 ordinary shares in KDC, being the issued ordinary share capital of KDC as enlarged by the Rights Issue.
4. Mr. Or Wai Sheun was deemed to be interested in 830,587,508 shares and underlying shares in KDC (being 108.27% of the issued ordinary shares capital of KDC of 767,120,850 ordinary shares at 31 December 2006) as the founder and one of the beneficiaries of a discretionary family trust.

Mr. Or Wai Sheun was also deemed to be interested in 277,500 shares and underlying shares in KDC (being 0.04% of the issued ordinary shares capital of KDC of 767,120,850 ordinary shares at 31 December 2006) owned by China Dragon Limited due to his corporate interest therein.

Mr. Or Wai Sheun was also deemed to be interested in 2,642,064,812 shares and underlying shares in the Company through his interest in KDC, which included 448,423,083 ordinary shares (being 58.46% of the issued ordinary share capital of KDC of 767,120,850 ordinary shares at 31 December 2006) and 382,441,925 underlying shares (being 49.85% of the issued ordinary share capital of KDC of 767,120,850 ordinary shares at 31 December 2006) in KDC.

The interest in 2,642,064,812 shares and underlying shares in the Company as disclosed above by Mr. Or Wai Sheun is the same interests in the Company as disclosed by KDC, HSBC International Trustee Limited and The Or Family Trustee Limited Inc under the heading of "Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares" below.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Notes: (Continued)

5. Percentage holding in KDC of Mr. Yeung Kwok Kwong would be 0.02%, if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of issued ordinary shares in KDC at 31 December 2006.
6. Percentage holding in KDC of Ms. Wong Yuk Ching would be 0.12%, if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of issued ordinary shares in KDC at 31 December 2006.
7. Percentage holding in KDC of Mr. Lam Chi Chung would remain unchanged, even if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of issued ordinary shares in KDC at 31 December 2006.
8. Percentage holding in KDC of Ms. Chio Koc leng would remain unchanged, even if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of issued ordinary shares in KDC at 31 December 2006.
9. Percentage holding in KDC of Mr. Lai Ka Fai would be 0.06% if the calculation of the percentage holding was based on 767,120,850 ordinary shares in KDC, being the number of ordinary shares in KDC at 31 December 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As disclosed in note 30 to the financial statements, the Company made a bonus issue of warrants to its shareholders during the year. The directors' interests in warrants disclosed in the section under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above were warrants granted by the Company to such directors or their controlled corporations in the capacity of shareholders of the Company pursuant to the bonus issue, as such directors or their controlled corporations held certain ordinary shares of the Company on the record date of the bonus issue.

During the year, the immediate holding company of the Company, a company controlled by Mr. Or Wai Sheun, contributed HK\$66,665,000 to the Company to pay up 3,703,590,076 10% partly paid convertible preference shares in the Company in full and converted 3,703,590,076 fully paid convertible preference shares into 275,191,901 fully paid ordinary shares in the Company.

During the year, the Company entered into a subscription agreement with its intermediate holding company, a company controlled by Mr. Or Wai Sheun, for the subscription of 1,598,000,000 ordinary shares in the Company at a subscription price of HK\$1.98 each, totalling HK\$3,164,040,000, by the immediate holding company of the Company.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

During the year, KDC proposed the Rights Issue to its shareholders. The directors' interests in the rights shares of KDC are disclosed in note 2 of the section under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 33(iii), (v), (vi), (vii), (viii), (ix) and (x) to the financial statements, no director had a significant interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year. The transactions disclosed in notes 33(vi), (vii), (ix) and (x) to the financial statements are also connected transactions being disclosed pursuant to rule 14A.45 of the Listing Rules.

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 Listing Rules.

SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option schemes are set out in note 31 to the financial statements.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following interests of 5% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity and nature of interests	Number of shares and underlying shares held			Percentage of the issued ordinary share capital (Note 1)
		Ordinary shares	Warrants	Total	
Long positions					
Kowloon Development Company Limited (Notes 2 and 5)	Through controlled corporation	2,572,167,275	69,897,537	2,642,064,812	61.21%
The Or Family Trustee Limited Inc. (Notes 3 and 5)	Through controlled corporation	2,572,167,275	69,897,537	2,642,064,812	61.21%
HSBC International Trustee Limited (Notes 4 and 5)	Trustee	2,572,167,275	69,897,537	2,642,064,812	61.21%
Wachovia Investors, Inc. (Note 6)	Directly beneficially owned	378,825,000	—	378,825,000	8.78%
Wachovia Corporation (Note 6)	Through controlled corporation	378,825,000	—	378,825,000	8.78%
Penta Investment Advisers Limited (Note 7)	Investment manager	222,871,500	—	222,871,500	5.16%
John Zwaanstra (Note 7)	Through controlled corporation	222,871,500	—	222,871,500	5.16%
Janus Capital Management LLC	Investment manager	221,188,133	—	221,188,133	5.12%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

Save as disclosed above, as at 31 December 2006, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Notes:

1. As at 31 December 2006, the total number of issued shares in the Company was 4,316,425,295 ordinary shares.
2. KDC, through its wholly owned subsidiary, Marble King International Limited, owns 2,572,167,275 ordinary shares in the Company (being 59.59% of the issued ordinary share capital of the Company) and warrants of HK\$138,397,123.26 of the Company which have the right to subscribe 69,897,537 ordinary shares in the Company (being 1.62% of the issued ordinary share capital of the Company).
3. The Or Family Trustee Limited Inc holds 448,238,083 ordinary shares in KDC (being 58.43% of the issued ordinary share capital of KDC) and, therefore was deemed to be interested in 2,642,064,812 shares and underlying shares in the Company.
4. HSBC International Trustee Limited holds 448,771,083 ordinary shares in KDC (being 58.50% of the issued ordinary share capital of KDC) and therefore was deemed to be interested in 2,642,064,812 shares and underlying shares in the Company.
5. The interest in 2,642,064,812 shares and underlying shares in the Company as disclosed above by KDC, HSBC International Trustee Limited and The Or Family Trustee Limited Inc and by Mr. Or Wai Sheun under the heading of "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above are the same interests in the Company.
6. Wachovia Corporation holds 100% interest in Wachovia Investors, Inc and therefore was deemed to be interested in 378,825,000 ordinary shares in the Company owned by Wachovia Investors, Inc.
7. John Zwaanstra is a director of Penta Investment Advisers Limited and therefore was deemed to be interested in 222,871,500 ordinary shares in the Company owned by Penta Investment Advisers Limited.

EMPLOYEES

As at 31 December 2006, the total number of employees of the Group was about 70. The Group remunerates its employees by means of salary and bonus based on their performance, working experience, degree of hardship and prevailing market practice. The emolument policy of the Group is reviewed by the members of the Remuneration Committee and approved by the Board.

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.

Report of the Directors

EMPLOYEES *(Continued)*

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 31 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in notes 29(a) and 30 to the financial statements, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$10,000.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 23 April 2007 to Thursday, 26 April 2007 (both days inclusive) in order to determine entitlements of shareholders to the final dividend in respect of the year ended 31 December 2006. In order to qualify for the entitlement of the final dividend, the shareholders must ensure that all share transfers accompanied by the relevant share certificates and, in the case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription moneys, must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 April 2007.

Report of the Directors

AUDITORS

For the past three years, Messrs. Ernst & Young acted as auditors of the Company for the financial year ended 30 November 2003 and Messrs. Deloitte Touche Tohmatsu acted as auditors of the Company for the financial period ended 31 December 2004 and the financial year ended 31 December 2005. Messrs. KPMG has been appointed as auditors of the Company since the financial year ended 31 December 2006.

Messrs. KPMG will retire at the forthcoming annual general meeting and a resolution for the reappointment of Messrs. KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

Or Wai Sheun

Chairman

Hong Kong

15 March 2007