

Directors' Report

The directors of the Company (the "Directors") have pleasure in presenting their report and the audited consolidated financial statements of the Company and its subsidiaries and associates (the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the activities of the principal subsidiaries are set out in note 51 to the financial statements. There were no significant changes in the nature of the Group's activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 and state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 87 of this Annual Report.

The Board recommends the payment of a final dividend of HK5.6 cents (2005: Nil) per share, which amounted to approximately HK\$29.7 million (2005: Nil) in respect of the year ended 31 December 2006 to the shareholders whose names appear on the register of members of the Company on 22 May 2007. No interim dividend was paid during the year ended 31 December 2006.

Subject to the approval by the shareholders of the final dividend at the forthcoming annual general meeting of the Company, the final dividend will be paid on or about 9 August 2007.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 88 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 16 and 17 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 89 to 92 of this Annual Report.

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 38 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 40(b) to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$448,420,000.

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DIRECTORS

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

Executive Directors:

Mr. Ng Hung Sang (Chairman)
Ms. Cheung Choi Ngor (Vice-chairman and Chief Executive Officer)
Mr. Richard Howard Gorges (Vice-chairman)
Mr. Ng Yuk Fung, Peter

Non-executive Director:

Ms. Ng Yuk Mui, Jessica

Independent Non-executive Directors:

Mr. Chiu Sin Chun
Ms. Wong Siu Yin, Elizabeth
Ms. Li Yuen Yu, Alice
Mr. Lee Wai Choi, Albert (resigned on 19 April 2006)

In accordance with article 116 of the articles of association of the Company, Mr. Ng Hung Sang, Mr. Ng Yuk Fung, Peter and Ms. Ng Yuk Mui, Jessica will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Non-executive Directors (including the Independent Non-executive Directors) have no fixed term of office and will be subject to retirement by rotation and re-election at the forthcoming Annual General Meeting of the Company according to the articles of association of the Company.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received from each of the Independent Non-executive Directors, Mr. Chiu Sin Chun, Ms. Wong Siu Yin, Elizabeth and Ms. Li Yuen Yu, Alice an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and for the year ended 31 December 2006 and as at the date of this Report, the Company still considers the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on page 8 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being 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' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors and the Chief Executive of the Company in the shares or underlying shares of the Company or 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 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 Issuers, were as follows:

Long positions in ordinary shares of HK\$0.10 each of the Company:

Name of Director	Note	Number of shares held, capacity and nature of interest		Total	Approximate percentage of the Company's issued share capital
		Beneficial owner	Interest of controlled corporations		
Mr. Ng Hung Sang ("Mr. Ng")	(a)	–	396,621,357	396,621,357	74.79%

Long positions in ordinary shares of associated corporations:

1. Interests in shares

(i) South China Holdings Limited ("SCH") (Note b)

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of
				the associated corporation's issued share capital
Mr. Ng	(c)	71,652,200	Beneficial owner	3.93%
		1,272,529,612	Interest of controlled corporations	69.79%
		<u>1,344,181,812</u>		<u>73.72%</u>
Mr. Richard Howard Gorges ("Mr. Gorges")	(c)	487,949,760	Interest of controlled corporations	26.76%
Ms. Cheung Choi Ngor ("Ms. Cheung")	(c)	487,949,760	Interest of controlled corporations	26.76%

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(ii) **South China Brokerage Company Limited (“SCB”) (name changed to “South China Financial Holdings Limited” on 26 February 2007) (Note d)**

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Ng	(e)	7,378,000 3,641,102,500	Beneficial owner Interest of controlled corporations	0.15% 72.75%
		3,648,480,500		72.90%
Mr. Gorges		12,174,000	Beneficial owner	0.24%

(iii) **Nority International Group Limited (“Nority”) (Note f)**

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Ng	(g)	255,885,561	Interest of controlled corporation	95.35%

(iv) **South China Financial Credits Limited (“SCFC”) (Note h)**

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Ng Yuk Fung, Peter		250,000	Beneficial owner	0.59%

(v) **The Express News Limited (“Express News”) (Note i)**

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Ng	(j)	30	Interest of controlled corporation	30%

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2. Interests in underlying shares of SCB

Name of Director	Capacity and nature of interest	Number of Underlying shares*	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Ms. Cheung	Beneficial owner	30,000,000	0.60%
Mr. Ng Yuk Fung, Peter	Beneficial owner	50,000,000	1.00%

* Represents underlying shares subject to share options granted to the Directors, details of which are as follows:

Name of Director	Date of grant (DD/MM/YY)	Exercise price (HK\$)	Number of shares options	Exercise period
Mr. Gorges	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
	16/03/2006	0.128	10,000,000	16/03/2008 – 15/03/2010
	16/03/2006	0.128	10,000,000	16/03/2009 – 15/03/2011
Ms. Cheung	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
	16/03/2006	0.128	10,000,000	16/03/2008 – 15/03/2010
	16/03/2006	0.128	10,000,000	16/03/2009 – 15/03/2011
Mr. Ng Yuk Fung, Peter	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
	16/03/2006	0.128	10,000,000	16/03/2008 – 15/03/2010
	16/03/2006	0.128	10,000,000	16/03/2009 – 15/03/2011
	26/04/2006	0.128	6,666,667	26/04/2007 – 25/04/2009
	26/04/2006	0.128	6,666,667	26/04/2008 – 25/04/2010
	26/04/2006	0.128	6,666,666	26/04/2009 – 25/04/2011

Notes:

- The 396,621,357 shares in the Company were held by certain wholly-owned subsidiaries of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) below and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of the Company under the SFO.
- SCH owned 74.79% shareholdings in the Company and was the ultimate holding company of the Company.
- Mr. Ng, Ms. Cheung and Mr. Gorges, through companies wholly-owned and controlled by them, had interests in 487,949,760 shares in SCH, Mr. Ng personally owns 71,652,200 shares and through companies wholly-owned and controlled by him, beneficially owned 784,579,852 shares in SCH.
- SCH owned 72.75% in the issued share capital of SCB.
- The 3,641,102,500 shares in SCB were held by certain wholly-owned subsidiaries of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCB under the SFO.
- The Company owned 95.35% shareholdings in Nority and was considered as the Company's subsidiary.
- The 255,885,561 shares in Nority were held by an indirect wholly-owned subsidiary of the Company. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a Director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of Nority under the SFO.

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- (h) SCFC was a 98.36% owned subsidiary of SCB.
- (i) Express News was a 70% owned subsidiary of SCH.
- (j) Mr. Ng and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in Express News.
- (k) All interests disclosed above represent long positions.

Save as disclosed above, as at 31 December 2006, none of the Directors or Chief Executive of the Company had registered an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations that was 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 for Securities Transactions by Directors of Listed Issuers.

SHARE OPTION SCHEMES

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share option schemes of the Company and its ultimate holding company whereas certain Directors are entitled to participate in the share option schemes of a subsidiary and a fellow subsidiary. Particulars of the share option scheme of the Company are set out in note 39 to the financial statements. Details of the options granted by the fellow subsidiary to the Directors were set out under the heading "Directors' and Chief Executives' Interests and Short Position in Shares, Underlying Shares and Debentures" of this Report. Save as disclosed in this Report and in the financial statements, up to 31 December 2006, none of the Directors and chief executive of the Company had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company or its associated corporations required to be disclosed pursuant to the SFO.

No option has been granted or outstanding under the share option scheme of the Company since its adoption.

Save as disclosed above, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the Directors 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 the chief executives or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which a Director of the Company, Mr. Ng Hung Sang, has beneficial interest are set out in note 47 to the financial statements.

Save as disclosed above, no contracts of significance in relation to the business of the Group to which the Company, or any of its holding companies, or any of its subsidiaries or fellow 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.

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

As at 31 December 2006, the following persons, other than the Directors or Chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long positions:

Name of shareholder	Capacity and nature of interest	Number of ordinary shares	Approximate percentage of shareholding
SCH	Interest of controlled corporations	396,621,357	74.79%

Save as disclosed above, as at 31 December 2006, no person, other than the Directors, whose interests are set out in the section "Directors' and Chief Executives' interests and Short Position in Shares, Underlying Shares and Debentures" above, 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.

SUFFICIENCY OF PUBLIC FLOAT

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 49 to the financial statements.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out on pages 17 to 19 of the Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance by the Company with the Model Code for Securities Transactions are set out on page 18 of this Annual Report.

CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken by the Group during the year in the ordinary course of business are set out in note 47 to the financial statements. None of these related party transactions constitute a connected transaction as defined in the Listing Rules.

During the year, an agreement dated 20 October 2006 was entered into among the Company, South China Land Limited ("SCL") and WTS International (BVI) Limited ("WTS"), a wholly-owned subsidiary of the Company, pursuant to which WTS conditionally agreed to sell to SCL one share of US\$1.00 each in the share capital of Praise Rich Limited ("Praise Rich"), an indirect wholly-owned subsidiary of the Company, representing the entire issued share capital of Praise Rich as at the date of the agreement and to procure the sale to SCL of the total outstanding interest-free debts due from Ever Talent Limited, a wholly-owned subsidiary of Praise Rich and the 80% foreign investor in 遼寧大發房地產有限責任公司 (Liaoning Dafa Real Estate Co., Ltd.) ("Liaoning Dafa") (Liaoning Dafa was an 80% indirectly-owned subsidiary of WTS) to Able Management Limited which was a wholly-owned subsidiary of the Company at a consideration of HK\$800 million. This agreement was subsequently amended and restated by an amended agreement on 9 January 2007.

The aforesaid transaction was disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

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AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The principal duties of the audit committee include the review of the Group's audit plan and process with the Auditors, the independence of the Auditors, the Group's financial statements and system of internal control. The audit committee comprises three independent non-executive directors, namely Mr. Chiu Sin Chun, Ms. Wong Siu Yin, Elizabeth and Ms. Li Yuen Yu, Alice (Committee Chairman).

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board their re-appointment in 2007 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2006 were reviewed by the audit committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2006, the sales to the Group's five largest customers accounted for 38% of the total sales and sales to the largest customers included therein amounted to 14%. Purchases from the Group's five largest suppliers accounted for 34% of the total purchases and purchases from the largest supplier included therein accounted for 24% of the total purchases.

None of the Directors or any their associates or any shareholders (which to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers.

AUDITORS

Deloitte Touche Tohmatsu resigned as auditors of the Company in 2005 and Ernst & Young were appointed by the Directors to fill the casual vacancy so arising. The financial statements for the year ended 31 December 2006 were audited by Ernst & Young who will retire but, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Ng Hung Sang
Chairman

Hong Kong, 17 April 2007