

# Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 42(i) to the consolidated financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 27.

The directors do not recommend the payment of a dividend for the year.

## **RESERVES**

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 30.

Movements in the reserves of the Company during the year are set out in note 42(ii) to the consolidated financial statements.

## **INVESTMENT PROPERTIES**

Details of movements in the investment properties of the Group during the year are set out in note 14 to the consolidated financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

Movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## **DISTRIBUTABLE RESERVES OF THE COMPANY**

As at 31st December, 2006, the Company's reserves available for distribution consisted of contributed surplus of HK\$84,239,000 (2005: HK\$84,239,000) and retained profits of HK\$3,162,000 (2005: HK\$6,986,000).

Details of the Company's distributable reserves are set out in note 42(ii) to the consolidated financial statements.

## DIRECTORS

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

### Executive directors

Mr. Fung Wa Ko (*Chairman*)

Mr. Tang Tsz Man, Philip

Mr. To Shu Fai (resigned on 9th August, 2006)

### Independent non-executive directors

Mr. Leung Chi Hung

Mr. Leung, Tsz Fung David Ferreira

Mr. Tse Yuen Ming

In accordance with Bye-Law 87 of the Company's Bye-Laws, Messrs. Fung Wa Ko and Tang Tsz Man, Philip retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

All directors are subject to retirement by rotation in accordance with Company's Bye-Laws. The independent non-executive directors are each appointed for a term of one year and will continue thereafter unless and until terminated by either party given the other not less than three months' notice, if he is re-elected in the coming annual general meeting but is also subject to retirement by rotation and re-election under the Company's Bye-Laws.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## INTERESTS OF DIRECTORS

None of the Company's directors, chief executives and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31st December, 2006 as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or 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.

## SHARE OPTIONS

Particulars of the share option scheme of the Company are set out in note 27 to the consolidated financial statements.

No share option was outstanding as at 1st January, 2006 and 31st December, 2006 and no share option was granted under the share option scheme during the year.

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## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

At 31st December, 2006, to the best knowledge of the directors or chief executives of the Company, the following parties (other than the directors or chief executives of the Company), had interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register of interests required to be kept by the Company under Section 336 of the SFO are as follows:

Long positions of the substantial shareholder in the shares and underlying shares of the Company:

Name of shareholder	Capacity	No. of shares held	No. of underlying shares held	Percentage of total issued share capital
Ever Achieve Enterprises Limited <i>(Note 1)</i>	Beneficial owner	1,011,615,665	–	29.07%
China Star Entertainment Limited <i>(Note 2)</i>	Interest of controlled corporation	723,140,000	–	20.78%
Ever Apollo Limited <i>(Note 3)</i>	Beneficial owner	–	900,000,000	25.86%
Fung Ho Sum <i>(Note 3)</i>	Interest of controlled corporation	–	900,000,000	25.86%
Wong Ka May <i>(Note 3)</i>	Spouse interest	–	900,000,000	25.86%
Equity Capital Group Limited <i>(Note 4)</i>	Beneficial owner	311,615,664	–	8.95%
So Yiu Ming, Sunny <i>(Note 4)</i>	Interest of controlled corporation	311,615,664	–	8.95%
Lam Fung Yee, Venue <i>(Note 4)</i>	Spouse interest	311,615,664	–	8.95%

Notes:

1. The entire issued share capital of Ever Achieve Enterprises Limited is owned by Mr. Chung Chiu Pui, Ms. Foo Hang Luen, Monita, Ms. Lee Yun and Mr. Yuen Kin Wing in equal shares.
2. China Star Entertainment Limited is deemed to be interested in the 723,140,000 shares which are held by its wholly-owned subsidiary, Classical Statue Limited.
3. Ever Apollo Limited is deemed to have interest in the share capital of the Company in respect of the number of shares which may fall to be allotted and issued to it upon exercise of the conversion right attaching to the convertible bond under the SFO. Ms. Wong Ka May is the spouse of Mr. Fung Ho Sum who is the beneficial owner of Ever Apollo Limited.
4. Ms. Lam Fung Yee, Venue is the spouse of Mr. So Yiu Ming, Sunny who is the beneficial owner of Equity Capital Group Limited.

Save as disclosed above, as at 31st December, 2006, the directors or chief executives of the Company are not aware of any other person (other than a director or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No other 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, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31st December, 2006, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 36% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 17% of the Group's total turnover.

For the year ended 31st December, 2006, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 60% of the Group's total purchases and the purchase attributable to the Group's largest supplier accounted for approximately 27% of the Group's total purchases.

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.

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## **EMOLUMENT POLICY**

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

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.

## **PRE-EMPTIVE RIGHTS**

There are no provision for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 15 to 24.

## **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

## **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 Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

## **AUDITOR**

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

On behalf of the Board

**Fung Wa Ko**

*Chairman*

Hong Kong, 19th April, 2007