

## Report of the Directors

The directors present their report together with the audited financial statements of the Company and 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 subsidiaries are set out in note 17 to the financial statements. During the year, as a result of the disposal of the entire shareholding of Telesuccess International Limited, a wholly-owned subsidiary of the Group, and its subsidiary, the Group ceased the telecommunication and other related services business. Apart from that, there were no significant changes in the nature of the Group's principal activities during the year.

### Results and Dividends

The Group's loss for the year ended 31 December 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 22 to 88.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2006.

### Summary Financial Information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 89 of the 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 of the Company and of the Group, and of the investment properties of the Group during the year are set out in notes 13 and 14, respectively, to the financial statements.

### Share Capital, Share Options and Convertible Bond

Details of movements in the Company's share capital, share options and convertible bond during the year, together with the reasons therefor, are set out in notes 29, 30 and 27 to the financial statements, respectively.

### Pre-emptive Rights

There are no provisions 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.

### Purchase, Sale or Redemption of Listed Securities of the Company

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

### Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

### Distributable Reserves

At the balance sheet date, the Company had no reserves available for cash distribution and distribution in specie. In accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK\$350,953,000, may be distributed in the form of fully paid bonus shares.

### Financial Resources and Liquidity

The Group generally finances its operations with internally generated cash flows and with facilities mainly provided by banks in Mainland China. At the balance sheet date, the Group had cash and bank balances and deposits totalling HK\$179,006,000.

At the balance sheet date, the Group had aggregate bank loans of approximately HK\$22,933,000, of which approximately HK\$5,087,000 is repayable within one year from the balance sheet date.

### Major Customers and Suppliers

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and supplier were as follows:

- (i) The aggregate amount of sales attributable to the Group's five largest customers represented 100% of the total sales for the year. The sales attributable to the Group's largest customer represented 70% of the Group's total sales for the year.
- (ii) The aggregate amount of purchases attributable to the Group's largest supplier accounted for 100% of the Group's total purchases for the year.

As far as the directors of the Company are aware, neither the directors, their respective associates nor 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 five largest customers or largest supplier.

# Report of the Directors

## Directors

The directors of the Company during the year were:

### Executive Directors:

Ho Tsam Hung, *Vice Chairman*  
Ho Kam Hung, *Managing Director*  
Yang Jia Jian

### Non-Executive Directors:

Lam Kuo, *Chairman*  
Young Kwok Sui (re-designated from Independent Non-Executive Director to Non-Executive Director on 16 March 2006)  
Yeung Mo Sheung, Ann (retired on 30 August 2006)

### Independent Non-Executive Directors:

Lawrence K. Tam  
Wong Miu Ting, Ivy  
Wong Kui Fai (appointed on 1 December 2006)  
Wong Ting Kon (retired on 30 August 2006)

In accordance with the Company's bye-laws, Ho Kam Hung, Young Kwok Sui and Wong Kui Fai will retire by rotation, and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

All non-executive directors and independent non-executive directors are appointed for a term of one year, and in accordance with the Company's bye-laws, they will retire by rotation, and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## Directors' Service Contracts

No director 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.

# Report of the Directors

## Emolument Policy and Directors' Remuneration

The directors' remuneration is subject to shareholders' approval at general meetings with reference to the recommendation of the Group's remuneration committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive directors is to enable the Group to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salaries, discretionary bonuses, housing benefits and share options.

## Directors' Interests in Contracts

No contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director had a material interest, either directly or indirectly, subsisted as at the balance sheet date or at anytime during the year.

## Management Contracts

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

## Directors' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2006, the interests and short positions of the directors in the share capital and underlying shares 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 Issuers (the "Model Code"), were as follows:

### Long positions in ordinary shares of the Company

Name of director	Notes	Number of shares held	Percentage of the Company's issued share capital
Ho Tsam Hung	(a)	14,500,000	2.36
Ho Kam Hung	(b)	27,000,000	4.40
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		41,500,000	6.76

Notes:

- (a) 14,500,000 shares are held by Morgan Estate Assets Limited ("Morgan"), a company beneficially owned by Ho Tsam Hung.
- (b) 27,000,000 shares are held by Morcambe Corporation ("Morcambe"), a company beneficially owned by Ho Kam Hung.

Morgan and Morcambe are controlled corporations owned by Ho Tsam Hung and Ho Kam Hung respectively.

The interests of the directors in the share options of the Company are separately disclosed in note 30 to the financial statements.

## Report of the Directors

### Directors' Interests and Short Positions in Shares and Underlying Shares

(continued)

#### Long positions in shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Shares/equity derivatives	Numbers of shares/equity derivatives held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Ho Tsam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
Ho Kam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 17 to the financial statements.

Save as disclosed above, as at 31 December 2006, none of the directors had registered an interest or short position 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.

#### Directors' Rights to Acquire Shares

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

## Report of the Directors

### Directors' Interests in a Competing Business

Pursuant to Rule 8.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), details of the interests held by certain directors in a business, which competes or is likely to compete with the business of the Group, are disclosed as follows:

Certain directors, through a private company, hold interests in a development site located at Jie Fang Nan Road, Yuexiu District, Guangzhou with an intention to develop the site into residential and commercial properties. A temporary distribution centre for shoes and related products is currently erected on the site and it is currently managed by a separate management team which is independent from the management of the Group. Given the location and market segment of the distribution centre, which is situated at Yuexiu District, Guangzhou and of the Group's shopping arcade, which is situated in Chongqing, the directors consider that competition between the two properties is remote and unlikely.

### Profiles of Directors and Senior Management

#### Directors

Name	Age	Position	Number of years of service with the Group	Business experience
Ho Tsam Hung	54	Vice Chairman	16	Over 16 years' experience in property development and investment in Mainland of the People's Republic of China ("Mainland China")
Ho Kam Hung	52	Managing Director	16	Over 16 years' experience in property development and investment in Mainland China
Yang Jia Jian	42	Executive Director	2	Over 20 years' experience in project management
Lam Kuo	58	Non-Executive Chariman	2	Over 21 years' business experience
Young Kwok Sui	49	Non-Executive Director	4	Over 19 years' experience in accountancy and management consultancy services
Lawrence K. Tam	62	Independent Non-Executive Director	1	Over 26 years' experience in banking and finance



## Report of the Directors

### Profiles of Directors and Senior Management (continued)

Name	Age	Position	Number of years of service with the Group	Business experience
Wong Miu Ting, Ivy	45	Independent Non-Executive Director	1	Over 21 years' experience in auditing and business advisory
Wong Kui Fai	49	Independent Non-Executive Director	Newly appointed on 1 December 2006	Over 20 years' experience in information technology and investment operation
<b>Senior management</b>				
Goh Choo Hwee	35	Company Secretary	2	Over 11 years' experience in legal and corporate finance
Lee Tao Wai, Edward	28	Financial Controller	2	Over 7 years' experience in accounting and auditing
Chun Wai Yin, Alex	41	Accounting Manager	15	Over 19 years' experience in accounting and treasury management

### Employees and Remuneration Policy

The Group employed 19 full-time staff in Hong Kong and Mainland China as at 31 December 2006. Employees are remunerated according to the nature of their job and market trends, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Mainland China, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, the Mandatory Provident Fund scheme and an employees' share option scheme.

## Report of the Directors

### Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2006, the following interests and short positions of 5% or more of 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:

#### Long position

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Hero Grand Investments Limited ( <i>Note 1</i> )	Directly beneficially owned	77,000,000	12.56
Leung Po Wa ( <i>Note 1</i> )	Through controlled corporation	77,000,000	12.56
Noble Idea Investments Limited ( <i>Note 2</i> )	Directly beneficially owned	45,100,000	7.35
Choi Kwan Yee ( <i>Note 2</i> )	Through controlled corporation	45,100,000	7.35
High Rank Enterprises Limited ( <i>Note 3</i> )	Directly beneficially owned	31,700,000	5.17

Notes:

1. Hero Grand Investments Limited is wholly-owned by Leung Po Wa.
2. Noble Idea Investments Limited is wholly-owned by Choi Kwan Yee.
3. Each of Ho Tsam Hung and Ho Kam Hung, being the executive directors of the Company, is interested in approximately 31.58% of the issued share capital of High Rank Enterprises Limited. Ho Tsam Hung and Ho Kam Hung are brothers.

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" 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.

#### Post Balance Sheet Events

Details of the significant post balance sheet events of the Company and of the Group are set out in note 39 to the financial statements.

#### Sufficiency of Public Float

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at 26 April 2007 (being the latest practicable date prior to the printing of this annual report).



## Report of the Directors

### **Auditors**

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

### **Ho Kam Hung**

*Managing Director*

Hong Kong  
26 April 2007