

# REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 March 2006.

## **PRINCIPAL ACTIVITIES AND TRADING OPERATIONS**

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 107 and 108.

An analysis of the principal activities and geographical locations of trading operations of the Company and its subsidiaries during the financial year is set out in Note 1 to the Financial Statements on pages 50 to 53.

## **RESULTS, APPROPRIATIONS AND RESERVES**

The results of the Group for the financial year ended 31 March 2006 are set out in the Consolidated Profit and Loss Account on page 42.

Appropriations of profits and movements in reserves during the financial year are set out in Note 25 to the Financial Statements on pages 81 to 85.

## **DIVIDENDS**

An interim dividend of 2.5 cents per share was paid on 9 January 2006. The Directors have now recommended for adoption at the Annual General Meeting to be held on Friday, 25 August 2006 the payment on 1 September 2006 to Shareholders on record as at 25 August 2006 of a final dividend of 10.0 cents per share in respect of the financial year ended 31 March 2006. This recommendation has been disclosed in the Financial Statements.

## **FIXED ASSETS**

Movements in fixed assets during the financial year are set out in Note 11 to the Financial Statements on page 67.

## **DONATIONS**

The Group made donations during the financial year totalling HK\$4.0 million.

## **DIRECTORS**

The Directors of the Company during the financial year were Messrs P K C Woo, G W J Li, S T H Ng, P Y C Tsui, D J Lawrence (resigned on 1 January 2006), A S K Au, B M Chang, K W S Ting and W Turnbull.

Messrs P K C Woo, P Y C Tsui, A S K Au and B M Chang are due to retire from the Board at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## **INTERESTS IN CONTRACTS**

No contract of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

## **MANAGEMENT CONTRACTS**

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

## **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

At no time during the financial year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

## AUDITORS

During the financial year, KPMG was appointed Auditors of the Company to fill the vacancy occasioned by the retirement of PricewaterhouseCoopers on 15 August 2005 as Auditors of the Company.

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board

**Wilson W S Chan**

*Secretary*

Hong Kong, 27 June 2006

## SUPPLEMENTARY CORPORATE INFORMATION

### (A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGERS ETC.

#### (I) *Directors*

**Peter K C Woo**, *GBS, JP, Chairman (Age: 59)*

Mr Woo has resumed the role of Chairman since 2002 after having formerly served as Chairman of the Company from 1986 to 1996. He also serves as a member and the chairman of the Company's Remuneration Committee. He is also the chairman of The Wharf (Holdings) Limited ("Wharf"), Wheelock Properties Limited ("WPL") and Wheelock Properties (Singapore) Limited ("WPSL").

Mr Woo was appointed a Justice of the Peace in 1993 and awarded the Gold Bauhinia Star in 1998 by the Hong Kong SAR Government. He has for many years been actively engaged in community and related services, both locally and in the international arena, and has held various Government appointments. He has been the Government-appointed chairman of the Hong Kong Trade Development Council since October 2000 and had served as the chairman of Hospital Authority from 1995 to 2000 and the council chairman of Hong Kong Polytechnic University from 1993 to 1997. He is currently the chairman of the Hong Kong Environment and Conservation Fund Committee set up in 1994 which he co-funded with the Government. He also served as a deputy chairman in 1991 to Prince of Wales Business Leaders Forum, and as a member of the International Advisory Council of JPMorgan Chase & Co., National Westminster Bank, Banca Nazionale del Lavoro, Elf Aquitaine of France and General Electric of America. He has received Honorary Doctorates from various universities in the USA, Australia and Hong Kong.

**Gonzaga W J Li**, *Senior Deputy Chairman (Age: 77)*

Mr Li has been a Director of the Company since 1969 and became Chairman in 1996. He relinquished the title of Chairman and has assumed the title of Senior Deputy Chairman of the Company since 2002. He is also the senior deputy chairman of Wharf and the chairman of Harbour Centre Development Limited ("HCDL") and Modern Terminals Limited as well as the chief executive officer and a director of Wharf China Limited. Furthermore, he is a director of WPL and Joyce Boutique Holdings Limited ("Joyce").

**Stephen T H Ng**, *Deputy Chairman (Age: 53)*

Mr Ng has been a Director of the Company since 1988 and became the Deputy Chairman in 1995. He is also the deputy chairman and managing director of Wharf, the chairman, president and chief executive officer of both i-CABLE Communications Limited and Wharf T&T Limited as well as a director of Joyce. Mr Ng serves as a member of the General Committee of the Hong Kong General Chamber of Commerce.

**Paul Y C Tsui**, *Executive Director (Age: 59)*

Mr Tsui has been a Director of the Company since 1998 and became Executive Director in 2003. He is also a director of Joyce, WPL and WPSL. Mr Tsui is a fellow member of the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the Association of Chartered Certified Accountants (“ACCA”) and the Chartered Institute of Management Accountants.

**Alexander S K Au**, *OBE, Director (Age: 59)*

Mr Au has been an independent Non-executive Director of the Company since 2002. He also serves as a member and the chairman of the Company’s Audit Committee and also a member of the Company’s Remuneration Committee. Mr Au is also an executive director and the chief financial officer of Henderson Land Development Company Limited and a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited. He is also a member of the Council of the Hong Kong University of Science and Technology.

Mr Au formerly served as a member of a number of Government advisory bodies and voluntary agencies, including the Exchange Fund Advisory Committee, the Banking Advisory Committee, the Hong Kong Trade Development Council, the City University of Hong Kong and the Community Chest of Hong Kong. He was named Hong Kong Banker of the Year in July 1996 and Hong Kong Business Executive of the Year in December 1996. He is a fellow member of HKICPA, ACCA, The Chartered Institute of Bankers and the Hong Kong Institute of Bankers.

**B M Chang**, *Director (Age: 77)*

Mr Chang has been a Director of the Company since 1969. He, being an independent Non-executive Director, also serves as a member of the Company’s Audit Committee.

**Kenneth W S Ting**, JP, Director (Age: 63)

Mr Ting has been an independent Non-executive Director of the Company since 2003. He is also the managing director, chief executive officer of publicly-listed Kader Holdings Company Limited and the chairman of Kader Industrial Company Limited, and a director of New Island Printing Holdings Limited. Mr Ting currently serves as the chairman of the Federation of Hong Kong Industries, the non-executive director of the Mandatory Provident Fund Schemes Authority, the chairman of the Vocational Training Council-Plastics Training Board, the president of the Hong Kong Plastics Manufacturers' Association Limited, the honorary president of the Chinese Manufacturers' Association of Hong Kong and the honorary president of the Toys Manufacturers' Association of Hong Kong Limited.

Mr Ting is also a member of the Hong Kong General Chamber of Commerce, the Hong Kong Trade Development Council, the Manpower Development Council, the Economic and Employment Council, the Hong Kong Polytechnic University Court and The Hong Kong University of Science and Technology Court. Furthermore, he is a member of the Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference and the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference (Dong Shan District).

**William Turnbull**, OBE, JP, Director (Age: 72)

Mr Turnbull has been an independent Non-executive Director of the Company since 2002. He also serves as a member of the Company's Audit Committee and Remuneration Committee. Mr Turnbull is also the non-executive chairman of Hong Kong Standards and Testing Centre Limited and Hong Kong Safety Institute Limited.

*Note: The Company confirms that it has received written confirmation from each independent Non-executive Director confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and the Company still considers the independent Non-executive Directors to be independent.*

**(II) Senior Managers**

Various businesses of the Group are respectively under the direct responsibility of the Chairman and the Executive Director of the Company as named under (A)(I) above, who are regarded as senior management of the Group.

**(B) DIRECTORS' INTERESTS IN SHARES**

At 31 March 2006, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company, of an associate of the Company, namely, Wharf, and of a subsidiary of the Company, namely, WPL, and the percentages which the relevant shares represented to the issued share capitals of the three companies respectively are also set out below:

|                    | <b>No. of Ordinary Shares</b><br>(percentage of issued capital) | <b>Nature of Interest</b>   |
|--------------------|---|---|
| <b>The Company</b> |   |   |
| Peter K C Woo      | 1,204,934,330 (59.3023%)  | Personal Interest in<br>8,847,510 shares,<br>Corporate Interest in<br>200,865,142 shares<br>and Other Interest in<br>995,221,678 shares |
| B M Chang          | 8,629,575 (0.4247%)   | Corporate Interest  |
| G W J Li           | 1,486,491 (0.0732%)   | Personal Interest   |
| S T H Ng           | 300,000 (0.0148%)   | Personal Interest   |
| <b>Wharf</b>       |   |   |
| G W J Li           | 686,549 (0.0280%)   | Personal Interest   |
| S T H Ng           | 650,057 (0.0266%)   | Personal Interest   |
| <b>WPL</b>         |   |   |
| G W J Li           | 2,900 (0.0001%)   | Personal Interest   |

**Notes:**

- (1) The 995,221,678 shares of the Company stated above as "Other Interest" against the name of Mr Peter K C Woo represented an interest comprised in certain trust properties in which Mr Woo was taken, under certain provisions in Part XV of the Securities and Futures Ordinance (the "SFO") which are applicable to a director or chief executive of a listed company, to be interested.
- (2) The shareholdings classified as "Corporate Interest" in which the Directors concerned were taken to be interested as stated above were interests of corporations at respective general meetings of which the relevant Directors were respectively either entitled to exercise (or taken under Part XV of the SFO to be able to exercise) or control the exercise of one-third or more of the voting power in general meetings of such corporations.
- (3) The shareholding interests stated above as "Personal Interest" and "Corporate Interest" against the name of Mr Peter K C Woo totalling 209,712,652 shares of the Company represented the same block of shares as that of the shareholding interest of Mrs Bessie P Y Woo stated below in the section headed "Substantial Shareholders' Interests".
- (4) The 995,221,678 shares of the Company as referred to under Note (1) above are entirely duplicated or included in the shareholding interest of HSBC Trustee (Guernsey) Limited stated below under the section headed "Substantial Shareholders' Interests".

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Issuers:

- (i) there were no interests, both long and short positions, held as at 31 March 2006 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and
- (ii) there existed during the financial year no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial year of any such rights by any of them.

### (C) SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties, other than person(s) who is/are Director(s) of the Company, who/which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at 31 March 2006, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register"), and the percentages which the shares represented to the issued share capital of the Company:

| Names                                | No. of Ordinary Shares<br>(percentage of issued capital) |
|--------------------------------------|--|
| (i) Mrs Bessie P Y Woo               | 209,712,652 (10.32%)                                     |
| (ii) HSBC Trustee (Guernsey) Limited | 1,095,300,362 (53.91%)                                   |
| (iii) JPMorgan Chase & Co.           | 121,486,100 (5.98%)                                      |

*Note: Duplication occurred in respect of the shareholding interests under (i) and (ii) above, as set out above in Notes (3) and (4) under the section headed "Directors' Interests in Shares".*

All the interests stated above represented long positions and as at 31 March 2006, there were no short position interests recorded in the Register.

## **(D) PENSION SCHEMES**

The Group operates a number of pension schemes. Set out below are certain particulars regarding the principal pension scheme (the "Pension Scheme") operated by the Group:

### **(I) Nature of the Pension Scheme**

The Pension Scheme is a defined contribution scheme. The assets of the Pension Scheme are held separately by an independently administered fund.

### **(II) Funding of the Pension Scheme**

The Pension Scheme is funded by contributions from employees and employers. The employees and employers contribute respectively to the Pension Scheme sums which represent percentages of their salaries as defined under the relevant trust deed.

### **(III) Forfeited Contributions**

The contributions are expensed as incurred and may be reduced by contributions forfeited by those employees who have left the Pension Scheme prior to vesting fully in the contributions.

### **(IV) Cost of the Pension Scheme**

The employer's cost charged to the profit and loss account during the year ended 31 March 2006 in respect of the Pension Scheme amounted to HK\$3.9 million. During the year, no forfeiture of employer's contribution was used to reduce current year's contribution.

*Note: The total employers' pension cost in respect of all pension schemes of the Group, including the cost related to the various mandatory retirement schemes which are not operated by the Group, charged to the profit and loss account during the financial year ended 31 March 2006 amounted to HK\$32.4 million.*

## **(E) EXECUTIVE SHARE INCENTIVE SCHEME (THE "SCHEME")**

### **(I) Summary of the Scheme**

#### **(a) Purpose of the Scheme:**

To give executives of the Group the opportunity of acquiring an equity participation in the Company, to continue to provide them with the motivation and incentive to give their best contribution towards the Company's continued growth and success.

#### **(b) Participants of the Scheme:**

Any employee of the Company or any of its subsidiaries holding an executive, managerial, supervisory or similar position, including a Director of the Company or any of its subsidiaries holding executive office, who accepts the offer of the grant of an option in accordance with the terms of the Scheme (the "Employee(s)").

- (c)** (i) Total number of ordinary shares of HK\$0.50 each in the capital of the Company (the “Shares”) available for issue under the Scheme as at 31 March 2006:

82,401,464

- (ii) Percentage of the issued share capital that it represents as at 31 March 2006:

4%

- (d)** Maximum entitlement of each participant under the Scheme as at 31 March 2006:  
Not more than:

- (i) 10% of the maximum number of Shares available for subscription under the terms of the Scheme; and
- (ii) in terms of amount of the aggregate subscription price, such amount of aggregate subscription price in respect of all the Shares for which an Employee is granted options in any financial year as would exceed five times his or her gross annual remuneration.

- (e)** Period within which the Shares must be taken up under an option:

Within 10 years from the date on which the option is granted or such shorter period as the Board of Directors may approve.

- (f)** Minimum period for which an option must be held before it can be exercised:

One year from the date on which the option is granted.

- (g)** (i) Price payable on application or acceptance of the option:

HK\$1.00

- (ii) The period within which payments or calls must or may be made or loans of such purposes must be repaid:

Seven days after the offer date of an option.

**(h)** Basis of determining the exercise price:

Pursuant to Rule 17.03(9) of the Listing Rules, the exercise price must be at least the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

**(i)** The remaining life of the Scheme:

Two years

**(II) Details of Share Options Granted**

No share option of the Company was issued, exercised, cancelled, lapsed or outstanding throughout the financial year.

**(F) MAJOR CUSTOMERS & SUPPLIERS**

For the financial year ended 31 March 2006:

- (a)** the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented 62% of the Group's total purchases;
- (b)** the largest supplier accounted for 19% of the Group's total purchases;
- (c)** none of the Directors of the Company or their associates holds, nor does any Shareholder owning (to the knowledge of the Directors) more than 5% of the Company's equity capital hold, any interests in any of the Group's five largest suppliers; and
- (d)** the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

### **(G) BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS**

Particulars of any and all bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 March 2006 which are repayable on demand or within a period not exceeding one year or after one year are set out in Note 21 to the Financial Statements on page 77.

### **(H) INTEREST CAPITALISED**

The amount of interest capitalised by the Group during the financial year is set out in Note 5 to the Financial Statements on page 57.

### **(I) PURCHASE, SALE OR REDEMPTION OF SHARES**

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

### **(J) PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 March 2006.