

Directors' Report

The directors of the Company (the “Directors”) have pleasure in presenting their report and the audited consolidated financial statements of the Company together with 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 55 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 results of the Group for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 101 of this Annual Report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the 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 102 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 Company and the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 103 to 106 of this Annual Report.

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 42 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 the Cayman Islands.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 44 to the financial statements and in the consolidated statement of changes in equity set out on pages 26 to 27 of this Annual Report, 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\$734,276,000.

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DIRECTORS

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

Executive Directors:

Mr. Ng Hung Sang (Chairman)
Mr. Richard Howard Gorges
Ms. Cheung Choi Ngor
Mr. Ng Yuk Fung, Peter

Non-executive Directors:

Mr. David Michael Norman
Ms. Ng Yuk Mui, Jessica

Independent Non-executive Directors:

Mr. David John Blackett
Ms. Wong Siu Yin, Elizabeth
Mr. Cheng Hong Kei

In accordance with Article 116 of the Articles of Association of the Company, Mr. Ng Hung Sang, Mr. Richard Howard Gorges and Mr. David John Blackett will retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

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. David John Blackett, Ms. Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of 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 Annual Report, the Company still considers the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 8 to 9 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 the 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 chief executives of the Company in the shares, underlying shares or debentures of the Company or any of 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 set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(1) Long positions in ordinary shares of HK\$0.025 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		
Ng Hung Sang ("Mr. Ng")	(a)	71,652,200	1,272,529,612	1,344,181,812	73.72%
Richard Howard Gorges ("Mr. Gorges")	(a)	—	487,949,760	487,949,760	26.76%
Cheung Choi Ngor ("Ms. Cheung")	(a)	—	487,949,760	487,949,760	26.76%

(2) Long positions in ordinary shares of associated corporations:

1. Interests in Shares

- (i) **South China Brokerage Company Limited ("SCB")** (Note b)
(Name changed to South China Financial Holdings Limited on 26 February 2007)

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)	7,378,000	Beneficial owner	0.15%
		3,641,102,500	Interest of controlled corporations	72.75%
		<u>3,648,480,500</u>		<u>72.90%</u>
Mr. Gorges		12,174,000	Beneficial owner	0.24%

- (ii) **South China Industries Limited ("SCI")** (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)	396,621,357	Interest of controlled corporations	74.79%

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(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 corporations	95.35%

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

Name of Director		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 a controlled corporation	30%

2. Interests in underlying shares of SCB – share options scheme of SCB

Name of Director	Capacity	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%

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* 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)	Subscription price per share HK\$	No. of share options granted	Exercise period (DD/MM/YY)
Mr. Gorges	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			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
			10,000,000	16/03/2008 – 15/03/2010
			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
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
	26/04/2006	0.128	6,666,667	26/04/2007 – 25/04/2009
			6,666,667	26/04/2008 – 25/04/2010
			6,666,666	26/04/2009 – 25/04/2011

Notes:

- (a) The 1,272,529,612 shares held by Mr. Ng through controlled corporations referred to above included 371,864,000 shares held by Parkfield Holdings Limited ("Parkfield"), 396,050,252 shares held by Fung Shing Group Limited ("Fung Shing"), 16,665,600 shares held by Ronastar Investments Limited ("Ronastar"), 237,303,360 shares held by Bannock Investment Limited ("Bannock") and 250,646,400 shares held by Eartrade Investments Limited ("Eartrade"). Parkfield, Fung Shing and Ronastar are all wholly owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Eartrade which is owned as to 60% by Mr. Ng, 20% by Ms. Cheung and 20% by Mr. Gorges, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such Mr. Ng, Ms. Cheung and Mr. Gorges were deemed to have an interest in 487,949,760 shares in the Company, which are being held by both Bannock and Eartrade.
- (b) The Company owned 72.75% in the issued share capital of SCB.
- (c) The 3,641,102,500 shares in SCB were held by certain wholly-owned subsidiaries of the Company. By virtue of the interests in the shares in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCB under the SFO.
- (d) SCI was a 74.79% owned subsidiary of the Company.
- (e) The 396,621,357 shares in SCI were held by certain wholly-owned subsidiaries of the Company. By virtue of the interests in the shares of the Company in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCI under the SFO.
- (f) Nority was a 95.35% owned subsidiary of SCI.
- (g) The 255,885,561 shares in Nority were held by an indirect wholly-owned subsidiary of the SCI. By virtue of the interests in the shares of the Company in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director of the Company, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of Nority under the SFO.
- (h) SCFC was a 98.36% owned subsidiary of SCB.
- (i) Express News was a 70% owned subsidiary of the Company.
- (j) Mr. Ng and his family, through a company wholly-owned and controlled by them, had interests in 30 shares in Express News.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executives 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.

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SHARE OPTIONS SCHEMES

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share options schemes (the "Share Option Schemes") of the Company, its holding company, subsidiaries and fellow subsidiaries. Particulars of the Share Option Schemes are set out in note 43 to the financial statements. Save as disclosed in this Annual Report and in the financial statements, up to 31 December 2006, none of the Directors or chief executives 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 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 the Directors had beneficial interest are set out in note 51 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.

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, who 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	Notes	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Eartrade	(a)	Beneficial owner and interest of a controlled corporation	487,949,760	26.76%
Bannock	(a)	Beneficial owner	237,303,360	13.01%
Parkfield		Beneficial owner	371,864,000	20.39%
Fung Shing		Beneficial owner	396,050,252	21.72%

Note:

- (a) Bannock is wholly owned subsidiary of Eartrade. The 487,949,760 Shares held by Eartrade include 237,303,360 shares held by Bannock.

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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 POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of Part XV 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 Annual Report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng Hung Sang, being the Chairman of the Company, is also the Chairman of Jessica Publications Limited ("Jessica") and Capital Publications Limited (Name changed to South China Land Limited on 8 March 2007) ("Capital"). Mr. Ng Hung Sang, personally and through Parkfield, Fung Shing and Ronastar, has interest in Jessica and Capital. Mr. Ng Hung Sang together with Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges, the Directors, have beneficial interests in Earntrade, which directly and indirectly through Bannock holds shares in Jessica and Capital. Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges are neither directors nor involved in the day-to-day management of Jessica and Capital. As both Jessica and Capital are principally engaged in publication business, Mr. Ng Hung Sang is regarded as interested in such competing business of the Group. Mr. Ng Yuk Fung, Peter, an Executive Director and the Chief Executive Officer of Jessica and also an Executive Director of Capital, is regarded as interested in such competing business of the Group.

Save as disclosed above, each of the Company, Jessica and Capital has its own executive directors who are not common directors for each other and will supervise the operations of these companies respectively. In addition, the Directors are of the view that the Company can carry on its business independently of and at arm's length from the business of Jessica and Capital as the Group's relevant publication business has its own target reader market and contents which are different from those of Jessica and Capital.

Ms. Ng Yuk Mui, Jessica is a Non-executive Director of Jessica and Capital. She is not regarded to have any competing business with the Group since she is not involved in the day-to-day business of Jessica and Capital.

Save as disclosed above, as at 31 December 2006, none of the Directors or any of their respective associates had any interest in any business which causes or may cause any competition with the business of the Group or any conflicts with the interests of the Group.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 53 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 (the "CG Code") are set out on pages 18 to 21 of this 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 19 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 51 to the financial statements. None of these related party transactions constitute a connected transaction as defined in the Listing Rules.

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During the year, an agreement dated 20 October 2006 was entered into among SCI, Capital and WTS International (BVI) Limited ("WTS"), a wholly-owned subsidiary of SCI which in turn was a 74.79% owned subsidiary of the Company, pursuant to which WTS conditionally agreed to sell to Capital one share of US\$1.00 each in the share capital of Praise Rich Limited ("Praise Rich"), an indirect wholly-owned subsidiary of SCI, representing the entire issued share capital of Praise Rich and to procure the sale to Capital 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 SCI 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.

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 less than 35% of the total purchases for the year.

None of the Directors or any of 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.

AUDIT COMMITTEE

The Audit Committee comprises four Non-executive Directors, out of which 3 of them are Independent Non-executive Directors, namely Mr. Cheng Hong Kei (Committee Chairman), Mr. David John Blackett, Ms. Wong Siu Yin, Elizabeth and Mr. David Michael Norman. The principal duties of the Audit Committee include the review of the Group's audit plan and process with the Auditors, the independence of Auditors, the Group's financial statements and system of internal control in accordance with its terms of reference, which is substantially the same as the CG Code.

The Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of Auditors 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.

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.

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 of the Company 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