

Report of Directors

The board of directors (the “Board”) of Meadville Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) is pleased to present the first annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2006.

CORPORATE REORGANISATION AND PUBLIC LISTING

The Company was incorporated with limited liability in the Cayman Islands on 28 August 2006. Pursuant to a group reorganisation to rationalise the structure of the Group in the preparation for the public listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 30 December 2006.

Details of the reorganisation of the Group are set out in Note 1 to the financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 16 to the financial statements.

RESULTS

The results of the Group for the year are set out in the Consolidated Profit and Loss Account on page 33.

DIVIDENDS

The directors do not recommend payment of any final dividend for the year ended 31 December 2006.

FINANCIAL SUMMARY

Financial summary for the years of 2003 to 2006 are set out on page 3 of this report.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in Note 24 to the financial statements.

RESERVES

Details of the movements during the year in the reserves of the Group and the Company are set out in Note 25 to the financial statements.

In addition to the retained profits of the Company, the share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid in accordance with the Companies Law (2004 Revision) of the Cayman Islands.

As at 31 December 2006, the share premium of the Company was approximately HK\$762,000,000 and the accumulated loss of the Company was approximately HK\$597,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$44,301.

DIRECTORS

The Board during the year ended 31 December 2006 and up to the date of this report comprised:

Executive Directors

Mr Tang Hsiang Chien – *Honourary Founding Chairman* (appointed on 27 September 2006)

Mr Tang Chung Yen, Tom – *Executive Chairman and Group Managing Director* (appointed on 27 September 2006)

Mr Chung Tai Keung, Canice – *Chief Executive Officer* (appointed on 27 September 2006)

Ms Tang Ying Ming, Mai – *Chief Financial Officer* (appointed on 28 August 2006)

Independent Non-executive Directors

Mr Lee, Eugene (appointed on 12 January 2007)

Mr Leung Kwan Yuen, Andrew (appointed on 12 January 2007)

Dr Li Ka Cheung, Eric (appointed on 12 January 2007)

In accordance with article 106 and article 110 of the Company's articles of association, all the directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors has been appointed for a term of two years commencing on 12 January 2007, subject to the provisions of the Company's articles of association.

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 "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

Biographical details of the directors as at the date of this report are set out on pages 15 to 17.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company, pursuant to which Mr Tang Hsiang Chien has agreed to act for a term of one year and the other three executive directors have agreed to act for two years, all commencing on 1 January 2007 and shall continue thereafter until terminated, among others, by not less than six months' notice in writing served by either party on the other or in accordance with terms of the service agreement.

Save as disclosed above, none of the directors have entered or have proposed to enter into any service agreement with the Company or any member of the Group which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2006, the Company had not received any notice of interests to be recorded under Section 352 of the Securities and Futures Ordinance ("SFO") as the Company had not been listed on the Stock Exchange as at that date.

Immediately following completion of the public listing of the shares of the Company on 2 February 2007 ("New Listing"), the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company 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 Companies were as follows:

Long position

Beneficial interests in the Shares of the Company ("Shares")

Name of Director	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total number of Shares	Approximate percentage of shareholding
Tang Hsiang Chien ("HC Tang")	Nil	Nil	1,159,247,000 <i>(Note 1)</i>	235,305,000 <i>(Note 2)</i>	1,394,552,000	69.73% <i>(Note 3)</i>
Chung Tai Keung, Canice	48,064,000	Nil	Nil	Nil	48,064,000	2.40%

Notes:

- (1) These 1,159,247,000 Shares comprise: (i) 1,129,895,000 Shares owned by Su Sih (BVI) Limited ("SuSih"); (ii) 29,352,000 Shares held by Total Glory Holdings Limited ("Total Glory"), a wholly-owned subsidiary of SuSih, in trust for certain employees of the Group. HC Tang is deemed to be interested in the aforesaid Shares under the SFO because he is the sole shareholder of SuSih, which wholly owns Total Glory.
- (2) HC Tang holds the 235,305,000 Shares in his capacity as the trustee of a discretionary trust, namely Mein et Moi Trust ("MEM Trust").
- (3) This percentage comprises the 1,129,895,000 Shares owned by SuSih, the 29,352,000 Shares held by Total Glory as trustee for certain employees of the Group and the 235,305,000 Shares held by HC Tang as the trustee of MEM Trust, which respectively represent approximately 56.49%, 1.47% and 11.77% of the issued share capital of the Company immediately following the completion of the New Listing.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any Shares of the Company as at 31 December 2006.

SUBSTANTIAL SHAREHOLDER

As at 31 December 2006, the Company had not received any notice of interests to be recorded under Section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

Immediately following completion of the New Listing, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain directors, the following shareholder had notified the Company of relevant interests in the issued share capital of the Company:

Long position

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate shareholding percentage
SuSih	Beneficial owner and interest in controlled company	1,159,247,000 (Note 1)	57.96% (Note 2)

Notes:

- (1) These 1,159,247,000 Shares comprise: (i) 1,129,895,000 Shares owned by SuSih; and (ii) 29,352,000 Shares held by Total Glory in trust for certain employees of the Group. HC Tang is deemed to be interested in the aforesaid Shares under the SFO because he is the sole shareholder of SuSih, which wholly owns Total Glory.
- (2) This percentage comprises the 1,129,895,000 Shares owned by SuSih and the 29,352,000 Shares held by Total Glory as trustee for certain employees of the Group which respectively represent approximately 56.49% and 1.47% of the issued share capital of the Company immediately following the completion of the New Listing.

Save as disclosed and in the section entitled "Directors' Interests in Shares of the Company" above, the Company has not been notified of any other relevant interests or short positions in any shares of the Company as at 31 December 2006.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No 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.

SHARE OPTIONS

During the year ended 31 December 2006, the Company had not adopted any share option scheme and no options had been granted and remained outstanding at 31 December 2006. A share option scheme (the "Share Option Scheme") was adopted by the shareholders' written resolution of the Company dated 12 January 2007. Summary of principal terms of the Share Option Scheme is set out below. No option had been granted under the Share Option Scheme since its adoption on 12 January 2007.

Unless otherwise cancelled or amended, the Share Option Scheme shall be valid and effective for a period of 10 years from its adoption date, after which period no further options will be issued but any options then outstanding will continue to be exercisable in accordance with their terms of issue. The remaining life of the Share Option Scheme is 9 years and 10 months.

The Share Option Scheme is designed to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants ("Eligible Participants"). The Board may, at its discretion, grant options to subscribe for Shares in the Company to Eligible Participants. Eligible Participants include:

- (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group;
- (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group;
- (iii) any consultants, professional and other advisors to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services);
- (iv) any chief executives or substantial shareholders of the Company;
- (v) any associates of director, chief executive or substantial shareholder of the Company; and
- (vi) any employees (whether full-time or part-time) of substantial shareholder of the Company, provided that the Board may have absolute discretion to determine whether or not one falls within the above categories.

The period under which an option may be exercised will be determined by the Board at its absolute discretion, save that an option shall expire not later than 10 years from the date of grant. Unless otherwise determined by the Board, and specified in the offer letter at the time of offer, there is no minimum period for which an option must be held before the option can be exercised. An option is open for acceptance for a period of 21 days from the date of offer. The amount payable on acceptance of an option is HK\$1.00. The full amount of the subscription price for the Company's Shares has to be paid upon exercise of an option. The subscription price shall be such price solely determined by the Board at the time of offer of grant of the relevant option and shall be stated in the letter containing the offer of the grant of option.

The subscription price shall be at least the highest of the nominal value of the Company's Shares, the average of the closing prices of the Company's Shares quoted in the Stock Exchange's daily quotation sheets on the five trading days immediately preceding the date of an offer of the grant of the options and the closing price of the Company's Shares quoted in the Stock Exchange's daily quotation sheets on the date of an offer of the grant of the options.

The total number of the Company's Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company (excluding options lapsed in accordance with the terms of the Share Option Scheme) shall not in aggregate exceed 10% of the total number of the Company's Shares in issue on the date of commencement of dealings in the Shares on the Stock Exchange, being 200,000,000 Shares.

The limit on the number of the Company's Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Company's Shares in issue from time to time. As at the date of this report, a total of 200,000,000 Shares representing 10% of the issued share capital of the Company are available for issue under the Share Option Scheme.

The total number of the Company's Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's Shares in issue unless approved by the Company's shareholders in general meeting.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of Shares in the Company or any other body corporate.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company was not listed and did not have any connected transactions which were subject to the requirements of the Listing Rules.

MANAGEMENT CONTRACTS

Pursuant to a management agreement (the "Management Agreement") entered into between Photomask (HK) Limited (formerly known as Meadville Technologies Group Limited) ("PHKL"), the former holding company of the Group, and Su Sih Enterprises Limited ("SSEL") the former controlling shareholder of PHKL, a sum of management fee expenses of HK\$5,000,000 were paid to SSEL by PHKL for provision of management services during the year. The Management Agreement was terminated on 1 November 2006.

Save as disclosed above, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND THE FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The directors' fees and remuneration and the emoluments of the five highest paid individuals are disclosed in Note 7 to the financial statements. The emoluments of the directors are determined with regard to their duties and responsibilities, the Company's performance, prevailing market conditions and after considering the market emoluments for directors of other listed companies.

The contributions to pension scheme of directors for the year are disclosed in Note 7 to the financial statements.

PENSION SCHEMES

Details of the pension schemes are set out in Note 7 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed Shares during the year ended 31 December 2006 as the Company had not been listed on the Stock Exchange as at that date.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the company laws in the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were approximately 33% and 46% of the Group's sales and purchases respectively for the year ended 31 December 2006. Our Group's largest customer accounted for approximately 9% of turnover whereas our largest supplier accounted for approximately 21% of total purchases.

None of the directors of the Company or any of their associates or 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 top five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 13 to the financial statements.

POST BALANCE SHEET EVENT

Details of the significant events occurring after the balance sheet date are set out in Note 35 to the financial statements.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers, who will retire and, being eligible, will offer themselves for reappointment.

A resolution to re-appoint Messrs PricewaterhouseCoopers as auditors of the Company will be submitted at the annual general meeting of the Company.

On behalf of the Board

Tang Chung Yen, Tom

Executive Chairman and Group Managing Director

Hong Kong, 28 March 2007