

# Report of the Directors

The directors submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2005.

## Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16(c) to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

## Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 54.

During the year, the directors have declared an interim dividend of HK\$0.04 per ordinary share, totalling HK\$100,406,000 (US\$12,912,000) attributed to the results of 2005, which was paid on 7 October 2005.

The directors recommend the payment of a final dividend of HK\$0.15 per ordinary share, totalling HK\$376,673,000 (US\$48,540,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Thursday, 27 April 2006, is expected to be paid on 12 May 2006 to the shareholders of the Company whose names appear on the register of members of the Company on Thursday, 20 April 2006, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from Friday, 21 April 2006 to Thursday, 27 April 2006, both days inclusive.

## Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 24 to the financial statements.

## Donations

Charitable and other donations made by the Group during the year amounted to US\$86,000.

## Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the financial statements.

## Share capital

Details of the movements in share capital of the Company are set out in note 22 to the financial statements.

## Distributable reserves

Distributable reserves of the Company as at 31 December 2005, comprising share premium reserve of US\$114,969,000 that is subject to the regulation of Section 34 of the Cayman Islands Companies Law and the Articles of Association of the Company, the equity compensation of US\$3,135,000 and retained earnings of US\$58,222,000 totalling US\$176,326,000 are available for distribution to the Company's shareholders.

## Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December is set out on page 23.

## Purchase, sale or redemption of Company's listed shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## Share options

Share options have been granted to directors and senior management of the Group under (a) the Pre-IPO Share Option Scheme, and (b) the Share Option Scheme approved by the shareholders of the Company at an Extraordinary General Meeting on 25 February 2004.

The Pre-IPO Share Option Scheme was designed to recognise the contribution of certain directors and members of the Group to the growth of the Group and/or to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") whilst the purpose of the Share Option Scheme is to provide the participants who may be executive directors, non-executive directors, independent non-executive directors, employees of any member of the Group, any advisers, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners or service providers of any member of the Group who, as the Board of Directors, in its sole discretion, may consider, will contribute to the Group, with opportunity to acquire proprietary interests in the Company so as to encourage such participants to work towards enhancing the value of the Company and its shares for the benefit of the Group. The Share Option Scheme provides the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such participants. The terms of the Share Option Scheme are in accordance with the provisions of the Chapter 17 of The Rules Governing the Listing of Securities ("the Listing Rules") on the Stock Exchange.

Options were granted under both schemes at a nominal consideration of HK\$1.00. Each option gives the holder the right to subscribe for one share of the Company at a pre-determined price per share.

Options to subscribe for 6,300,000 new shares of the Company were granted by the Company to certain directors and certain members of the Group under the Pre-IPO Option Scheme on 19 March 2004 (which was before the listing of the shares of the Company on the Stock Exchange on 8 April 2004 (the "Listing Date")). These options were exercisable at the exercise price of HK\$1.75 per share, being the same as the offer price at IPO. After the Listing Date, no option can be issued under the Pre-IPO Scheme. During the year, all the options granted under the Pre-IPO Option Scheme have been exercised.

The Share Option Scheme is valid and effective for a period of 10 years commencing on 19 March 2004, being the date of adoption of such scheme by the Board of Directors of the Company.

The exercise price of the options granted under the Share Option Scheme shall be no less than the higher of (i) the average closing price of the ordinary shares issued by the Company, with a nominal value of HK\$0.10 each (the "Shares"), as stated in the daily quotations sheet issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (ii) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant. Each option gives the holder the right to subscribe for one share of the Company. Options to subscribe for 6,100,000 new shares of the Company were granted by the Company to directors and senior management of the Group under the Share Option Scheme on 14 June 2005. These options are exercisable at the exercise price of HK\$2.695 per Share, starting 1 July 2006 and will lapse on 1 July 2008.

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under the share option schemes does not in aggregate exceed 10% of the shares in issue on the date of approval of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30% of the shares in issue from time to time.

As at 13 March 2006, options to subscribe for a total of 6,100,000 option shares were still outstanding under the Share Option Scheme, which represent approximately 0.24% of the issued ordinary shares of the Company.

## Report of the Directors (continued)

### Share options (continued)

Details of the share options outstanding as at 31 December 2005 which were granted under the Pre-IPO Option Scheme and the Share Option Scheme are as follows:

	Held on 1 January 2005	Number of options		Held on 31 December 2005	Exercise price HK\$	Date of exercise <sup>2</sup>	Market closing price at day of exercise HK\$	Exercisable from	Exercisable until
		Granted during the year <sup>1</sup>	Exercised during the year						
<b>Executive and Non-executive Directors</b>									
<b>Lam Pak Lee</b>									
Pre-IPO Share Option Scheme	800,000		800,000	0	1.750	12 August 2005	2.350	9 April 2005	8 April 2009
Share Option Scheme	—	800,000	—	800,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Chang Ching Yi, Steven</b>									
Pre-IPO Share Option Scheme	800,000		800,000	0	1.750	5 July 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	800,000	—	800,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Wong Yuet Leung, Frankie</b>									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	20 October 2005	2.750	9 April 2005	8 April 2009
Share Option Scheme	—	500,000	—	500,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Leung Kwong Wai</b>									
Pre-IPO Share Option Scheme	800,000		800,000	0	1.750	5 July 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	800,000	—	800,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Huang Hsing Hua</b>									
Pre-IPO Share Option Scheme	300,000		300,000	0	1.750	14 June 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	300,000	—	300,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Lai Woon Ching</b>									
Pre-IPO Share Option Scheme	300,000		300,000	0	1.750	14 June 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	300,000	—	300,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Lo Wai Ming</b>									
Pre-IPO Share Option Scheme	300,000		300,000	0	1.750	14 June 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	300,000	—	300,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Subtotal</b>	<b>3,800,000</b>	<b>3,800,000</b>	<b>3,800,000</b>	<b>3,800,000</b>					
<b>Independent Non-executive Directors</b>									
<b>Choy Kwok Hung, Patrick</b>									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	19 July 2005	2.475	9 April 2005	8 April 2009
Share Option Scheme	—	500,000	—	500,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Kao Kuen, Charles</b>									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	10 November 2005	3.050	9 April 2005	8 April 2009
Share Option Scheme	—	500,000	—	500,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Sun, Patrick</b>									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	26 July 2005	2.550	9 April 2005	8 April 2009
Share Option Scheme	—	800,000	—	800,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Subtotal</b>	<b>1,500,000</b>	<b>1,800,000</b>	<b>1,500,000</b>	<b>1,800,000</b>					
<b>Senior Management</b>									
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	14 June 2005	2.675	9 April 2005	8 April 2009
Pre-IPO Share Option Scheme	500,000		500,000	0	1.750	5 July 2005	2.675	9 April 2005	8 April 2009
Share Option Scheme	—	500,000	—	500,000	2.695	N/A	—	1 July 2006	30 June 2008
<b>Subtotal</b>	<b>1,000,000</b>	<b>500,000</b>	<b>1,000,000</b>	<b>500,000</b>					
<b>Total</b>	<b>6,300,000</b>	<b>6,100,000</b>	<b>6,300,000</b>	<b>6,100,000</b>					

<sup>1</sup> All these options were granted on 14 June 2005.

<sup>2</sup> All these options were exercised after the market closed on the date specified.

### Share options (continued)

On 14 June 2005 when the relevant options were granted under the Share Option Scheme, the market value per share was HK\$2.675. The value of the options granted to the respective parties is as follows:

	HK\$'000	US\$'000
Dr. Lam Pak Lee	513	66
Mr. Leung Kwong Wai	513	66
Mr. Chang Ching Yi, Steven	513	66
Mr. Sun, Patrick	513	66
Prof. Kao Kuen, Charles	320	41
Mr. Choy Kwok Hung, Patrick	320	41
Mr. Wong Yuet Leung, Frankie	320	41
Mr. Huang Hsing Hua	192	25
Mr. Lai Woon Ching	192	25
Mr. Lo Wai Ming	192	25
Senior management	320	41
	<u>3,908</u>	<u>503</u>

The value of the options granted during the year is HK\$3,908,000 (approximately US\$503,000), based on the Black-Scholes valuation model. The significant inputs into the model were the share price of HK\$2.675 at the grant date, exercise price shown above, standard deviation of expected share price returns of 58%, expected life of option of 2 years, expected dividend paid out rate of 8.34% and annual risk-free interest rate of 3.08%. The volatility measured at the standard deviation of the expected share price returns is based on statistical analysis of daily share prices since the Listing Date. The Black-Scholes model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

### Directors

The directors during the year were:

Dr. Lam Pak Lee, Non-executive Chairman  
Mr. Leung Kwong Wai, Managing Director  
Mr. Huang Hsing Hua, Executive Director  
Mr. Lai Woon Ching, Executive Director  
Mr. Lo Wai Ming, Executive Director  
Mr. Chang Ching Yi, Steven, Non-executive Director  
Mr. Wong Yuet Leung, Frankie, Non-executive Director  
Mr. Choy Kwok Hung, Patrick, Independent Non-executive Director  
Prof. Kao Kuen, Charles, Independent Non-executive Director  
Mr. Sun, Patrick, Independent Non-executive Director

In accordance with Article 112 of the Company's Articles of Association, Dr. Lam Pak Lee, Mr. Lai Woon Ching and Mr. Lo Wai Ming will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Choy Kwok Hung, Patrick, Prof. Kao Kuen, Charles and Mr. Sun, Patrick, are independent non-executive directors and were re-appointed in 2005 for a term expiring on 30 June 2006.

### Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

### Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company 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.

### Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 18 to 21.

### Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation

As at 31 December 2005, the interests and short positions of each director and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary shares of HK\$0.10 each in the Company as at 31 December 2005						
		Directly Owned Shares	Options <sup>(v)</sup>	Beneficially Owned Shares	Total	% of the Issued Share Capital of the Company
Chang Ching Yi, Steven	Long positions	1,800,000	800,000	—	2,600,000	0.10%
	Short positions	—	—	—	—	—
Choy Kwok Hung, Patrick	Long positions	—	500,000	—	500,000	0.02%
	Short positions	—	—	—	—	—
Huang Hsing Hua	Long positions	6,200,000	300,000	2,820,000 <sup>(i)</sup>	9,320,000	0.37%
	Short positions	—	—	2,820,000 <sup>(i)</sup>	2,820,000	0.11%
Kao Kuen, Charles	Long positions	500,000	500,000	—	1,000,000	0.04%
	Short positions	—	—	—	—	—
Lai Woon Ching	Long positions	30,321,600	300,000	3,420,000 <sup>(ii)</sup>	34,041,600	1.36%
	Short positions	—	—	3,420,000 <sup>(ii)</sup>	3,420,000	0.14%
Lam Pak Lee	Long positions	25,800,000	800,000	—	26,600,000	1.06%
	Short positions	—	—	—	—	—
Leung Kwong Wai	Long positions	106,200,001	800,000	11,600,000 <sup>(iii)</sup>	118,600,001	4.72%
	Short positions	—	—	11,600,000 <sup>(iii)</sup>	11,600,000	0.46%
Lo Wai Ming	Long positions	26,360,000	300,000	5,820,000 <sup>(iv)</sup>	32,480,000	1.29%
	Short positions	—	—	5,820,000 <sup>(iv)</sup>	5,820,000	0.23%
Sun, Patrick	Long positions	500,000	800,000	—	1,300,000	0.05%
	Short positions	—	—	—	—	—
Wong Yuet Leung, Frankie	Long positions	—	500,000	—	500,000	0.02%
	Short positions	—	—	—	—	—

## Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation (continued)

- (i) Out of the 2,820,000 Shares held by Mr. Huang:
  - (a) 2,400,000 Shares are subject to lock-up and shall be released in three equal tranches of 800,000 Shares each on 8 April of 2006, 2007 and 2008, respectively. These Shares are held by HSBC International Trustee Limited as custodian ("the Custodian") for Mr. Huang under the Pre-IPO Loyalty Plan; and
  - (b) 420,000 Shares are subject to a two year vesting period and held by HSBC International Trustee Limited as trustee (the "Trustee") for the benefit of Mr. Huang under the Share Award Plan of the Company.
- (ii) Out of the 3,420,000 Shares held by Mr. Lai:
  - (a) 3,000,000 Shares are subject to lock-up and shall be released in three equal tranches of 1,000,000 Shares each on 8 April of 2006, 2007 and 2008, respectively. These Shares are held by the Custodian for Mr. Lai under the Pre-IPO Loyalty Plan; and
  - (b) 420,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lai under the Share Award Plan of the Company.
- (iii) Out of the 11,600,000 Shares held by Mr. Leung:
  - (a) 9,000,000 Shares are subject to lock-up and shall be released in three equal tranches of 3,000,000 Shares each on 8 April of 2006, 2007 and 2008, respectively. These Shares are held by the Custodian for Mr. Leung under the Pre-IPO Loyalty Plan; and
  - (b) 2,600,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Leung under the Share Award Plan of the Company.
- (iv) Out of the 5,820,000 Shares held by Mr. Lo:
  - (a) 5,400,000 Shares are subject to lock-up and shall be released in three equal tranches of 1,800,000 Shares each on 8 April of 2006, 2007 and 2008, respectively. These Shares are held by the Custodian for Mr. Lo under the Pre-IPO Loyalty Plan; and
  - (b) 420,000 Shares are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lo under the Share Award Plan of the Company.
- (v) These are options granted under the Share Option Scheme (see section headed "Share Options" above for more details).

Saved as disclosed above, at no time during the year, the directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO.

At no time during the year was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated companies other than Mr. Leung Kwong Wai who holds shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

### Substantial shareholders' interests and/or short positions in the shares and underlying shares of the Company

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 2005, the Company had been notified of the following substantial shareholders' interests and short positions, being interests of 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive of the Company.

Ordinary shares of HK\$0.10 each in the Company				
	Capacity	Long/Short positions	Number of shares	% of the Issued Share Capital of the Company
Government of Singapore Investment Corporation Pte. Ltd	Investment Manager	Long	126,611,600	5.04%
Commonwealth Bank of Australia	Attributable interest of controlled corporation	Long	200,411,865	7.98%
Genesis Fund Managers, LLP	Investment Manager	Long	152,414,000	6.07%

### Management contracts

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.

### Major suppliers and customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
- the largest supplier	32%
- five largest suppliers combined	84%
Sales	
- the largest customer	25%
- five largest customers combined	86%

None of the directors, their associates or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

### Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares as at 13 March 2006.

### **Compliance with the Code on Corporate Governance Practices**

The Company has complied with the applicable Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the year ended 31 December, 2005 except that the Article 112 of the Articles of Association of the Company provides that the Managing Director shall not be subject to rotation at the annual general meeting.

### **Compliance with the Model Code**

The Company has its own written guidelines on securities transactions by Directors and relevant employees on no less exacting terms than the required standard set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all of them were in compliance with such guidelines during the year ended 31 December 2005.

### **Auditors**

The financial statements for the year ended 31 December 2005 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**LEUNG Kwong Wai**

*Managing Director*

Hong Kong, 13 March 2006