

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st March 2006.

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 32 to the consolidated 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 consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 23.

The directors have declared an interim dividend of HK6 cents per share and an interim special dividend of HK4 cents per share, totalling HK\$56,125,000.

The directors recommend the payment of a final dividend of HK16 cents per ordinary share and a final special dividend of HK6 cents per ordinary share, totalling HK\$123,475,000.

LIQUIDITY AND FINANCIAL RESOURCES

Total equity and total equity per share for the year were HK\$1,426 million and HK\$2.54 respectively.

The Group's cash position remained very strong. As at 31st March 2006, our cash on hand and deposits totaled at HK\$1,029 million. After deducting the interest bearing debts of HK\$321 million, net cash amounted to HK\$708 million. The increase in net cash was attributable to profit generated from operations and low capital expenditure.

We finance our operations using retained profits and banking facilities combined. As at 31st March 2006, we had been granted banking facilities of HK\$2,001 million, of which HK\$321 million were utilised. Among the utilised facilities, HK\$244 million are repayable within one year and the remaining are repayable within two years.

Capital expenditure on fixed assets during the year was HK\$69 million (2005: HK\$90 million), which was spent mainly on enhancing various advanced production facilities. As at 31st March 2006, we had capital commitments contracted but not provided for in respect of moulds, plant and machinery amounting to HK\$8 million (2005: HK\$7 million).

Our foreign exchange exposure is well managed, and, as nearly all of our sales, purchases and borrowings are denominated in US dollar and HK dollar, we have natural hedges against currency risks and our policy is not to engage in speculative activities.

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EMPLOYEES

As at 31st March 2006, we had approximately 14,000 employees in Hong Kong and the PRC. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. We also provide other benefits including medical insurance, provident fund and education subsidies to all eligible staff.

MAJOR SUPPLIERS AND CUSTOMERS

The purchases and sales attributable to the Group's major suppliers and customers expressed as a percentage of total purchases and sales of the Group for the year ended 31st March 2006 are as follows:

Purchases	
the largest supplier	29%
five largest suppliers combined	46%
Sales	
the largest customer	39%
five largest customers combined	77%

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

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 26 to the consolidated financial statements.

DONATIONS

Charitable and other donation made by the Group during the year amounted to HK\$40,000.

PROPERTY, PLANT AND EQUIPMENT

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

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on page 69.

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SHARE CAPITAL AND BONUS WARRANTS

Details of the movements in the share capital and bonus warrants of the Company are set out in Note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March 2006 amounted to HK\$46,670,000 (2005: HK\$46,748,000), comprising retained profits and contributed surplus.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 70.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

On 25th October 2005, 100,000 shares of HK\$0.10 each of the Company were repurchased at a price of HK\$2.70 per share by the Company on The Stock Exchange of Hong Kong Limited and cancelled. Aggregate amount paid by the Company was HK\$270,000.

Save as disclosed above, neither the Company nor its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31st March 2006 and the Company has not redeemed any of its shares during the year ended 31st March 2006.

BANK LOANS AND OTHER BORROWINGS

An analysis of the Group's bank loans and other borrowings at 31st March 2006 is set out below:

	Trust receipt loans		Obligations under finance leases		Bank loans	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	139,978	89,050	–	206	103,545	77,619
In the second year	–	–	–	–	77,682	32,500
In the third to fifth year	–	–	–	–	–	7,500
	139,978	89,050	–	206	181,227	117,619

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PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March 2006 are set out in Note 32 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the Group's retirement benefit schemes are set out in Note 8 to the consolidated financial statements.

DIRECTORS

The directors during the year were:

Mr LEUNG Kai Ching, Kimen
Mr LEUNG Wai Sing, Wilson
Mr KUOK Kun Man, Andrew
Mr WONG Po Yan, G.B.M., J.P.¹
The Hon LI Wah Ming, Fred, J.P.¹
Mr LAU Wang Yip, Derrick¹

¹ *Independent non-executive directors*

In accordance with clause 87(1) of the Company's Bye-laws, Mr KUOK Kun Man, Andrew and Mr LAU Wang Yip, Derrick will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

On 1st April 2004, each of the executive directors entered into a service contract with the Company for a term of 3 years and shall continue until terminated by either party giving to the other not less than 6 months notice in writing.

The independent non-executive directors do not have any service contracts with the Company or its subsidiaries.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 8 and 9.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business 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.

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DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

(a) Long positions in ordinary shares of HK\$0.10 each of the Company

As at 31st March 2006, the interests and short positions of each director and chief executives in the shares, underlying shares and debentures of the Company and 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 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 Companies (the "Model Code") were as follows:

	Number of shares held			Total	Percentage of the issued share capital of the Company
	Personal interest	Corporate interest	Family interest		
Mr LEUNG Kai Ching, Kimen	18,200,000	38,891,600 (note i)	187,019,800 (note ii)	244,111,400	43.49%
Mr LEUNG Wai Sing, Wilson	44,640,000	–	187,019,800 (note ii)	231,659,800	41.28%
Mr KUOK Kun Man, Andrew	1,202,000	–	–	1,202,000	0.21%

Notes:

- (i) These shares were owned by Shundean Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder.
- (ii) These shares were owned by Kimen Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kimen Leung Unit Trust which is beneficially owned by The Kimen Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kimen are the beneficiaries of The Kimen Leung Family Trust which is a discretionary trust.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(continued)*

(b) Long positions in underlying shares of the Company

Other than as disclosed under the heading "Share Option Scheme", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executives or their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, as at 31st March 2006, other than one ordinary share each in the Hong Kong incorporated subsidiaries of the Company held in trust for the Group by Mr LEUNG Kai Ching, Kimen, none of the directors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND 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 31st March 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being 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 executives.

Name	Capacity in which shares were held	Long position	Percentage of the issued share capital of the Company
Shunde Investments Limited	Beneficial owner	225,911,400 (note i)	40.25%
HSBC International Trustee Limited	Trustee	187,835,800 (note ii)	33.47%
Kimen Leung UT Limited	Trustee	187,019,800 (notes i & ii)	33.32%
Commonwealth Bank of Australia	Interest of controlled corporation	39,484,000 (note iii)	7.03%
Leung Wai Lap David	Beneficial owner	32,972,190	5.87%
Webb David Michael	Beneficial owner	28,129,400	5.01%

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SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Notes:

- (i) Among the referenced shares, 38,891,600 ordinary shares were held by Shunde Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder; and 187,019,800 ordinary shares were held by Kimen Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kimen Leung Unit Trust which is beneficially owned by The Kimen Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kimen are the beneficiaries of The Kimen Leung Family Trust which is a discretionary trust.
- (ii) Among the referenced shares, 187,019,800 ordinary shares were held for Kimen Leung UT Limited, which were related to the same block of shares held by Kimen Leung UT Limited.
- (iii) According to the information disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, these shares were held by corporations controlled directly or indirectly as to 100% by Commonwealth Bank of Australia.

Save as disclosed above, as at 31st March 2006, according to the register of interests required to be kept by the Company under Section 336 of Part XV of the SFO, there was no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation" above, who had any interest or short position in the shares or underlying shares of the Company.

SHARE OPTION SCHEME

On the special general meeting which was held on 21st August 2003, shareholders of the Company approved the termination of the share option scheme adopted by the Company on 6th November 1992 which expired on 5th November 2002 and approved the adoption of a new share option scheme (the "Scheme"). The Scheme is valid and effective for a period of ten years from the date of adoption.

Pursuant to the Scheme, the Company may grant options to directors and employees of the Company or any of its subsidiaries, for the purpose of providing incentives, to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise all options granted and yet to be exercised under all share option schemes shall not exceed 30% of the issued share of the Company from time to time.

The number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not exceed 10% of the issued shares of the Company on the date of adoption.

The total number of options granted to an individual grantee in any 12-month period must not exceed 1% of the issued shares of the Company.

The period within which the shares must be taken up under an option is any period as determined by the Board, which shall not be more than 10 years from date of grant or the expiry date of the Scheme, whichever is earlier.

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SHARE OPTION SCHEME *(continued)*

The subscription price of the share options shall not be less than the higher of (i) the closing price of the shares on the Stock Exchange on the date of grant, (ii) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

An option grantee shall pay HK\$5 to the Company for the acceptance of an option.

No share options have been granted by the Company since the adoption of the Scheme.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

CORPORATE GOVERNANCE

The Company is maintaining a high standard of corporate governance practices. Details of the corporate governance practices adopted by the Company are set out in Corporate Governance Report on pages 10 to 12.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the financial statements of the Group for the year ended 31st March 2006.

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr WONG Po Yan, G.B.M., J.P., the Hon LI Wah Ming, Fred, J.P. and Mr LAU Wang Yip, Derrick.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the 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 at all times during the year ended 31st March 2006 and up to the date of this report.

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AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LEUNG Kai Ching, Kimen
Chairman

Hong Kong, 18th July 2006