

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 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 16 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 58.

During the year, the directors have declared an interim dividend of HK\$0.02 per ordinary share, totalling HK\$50,183,000 (US\$6,467,000) attributed to the results of 2006, which was paid on 18 September 2006.

The directors recommend the payment of a final dividend of HK\$0.04 per ordinary share, totalling HK\$100,106,000 (US\$12,869,000).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on 3 May 2007, is expected to be paid on 10 May 2007 to the shareholders of the Company whose names appear on the register of members of the Company on 3 May 2007, and for the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from 27 April 2007 to 3 May 2007, 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 consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to US\$ 52,000.

Property, plant and equipment

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

Share capital

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

Distributable reserves

Distributable reserves of the Company as at 31 December 2006, comprising share premium reserve of US\$113,582,000 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 reserve of US\$9,302,000 and retained earnings of US\$27,337,000 totalling US\$150,221,000 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 24.

Purchase, sale or redemption of Company’s listed shares

Except for the repurchase of the Company’s own ordinary shares as set out in note 22 to the consolidated financial statements, there were no purchases, sales or redemptions of the Company’s listed securities by the Company or any of its subsidiaries during the year. Shares were repurchased during the year to enhance the net asset value.

REPORT OF THE DIRECTORS (continued)

Share options

Share options have been granted to directors and senior management of the Group under the Share Option Scheme approved by the shareholders of the Company at an Extraordinary General Meeting on 25 February 2004.

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 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 of Hong Kong Limited (the "Stock Exchange").

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 options were granted 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.

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 proceeding 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 5,500,000 new shares of the Company were granted by the Company to directors and senior management of the Group under the Share Option Scheme on 28 June 2006. These options are exercisable at the exercise price of HK\$1.98 per share, starting from 1 July 2007 and will lapse on 1 July 2009.

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.

REPORT OF THE DIRECTORS (continued)

Share options (continued)

Details of the share options outstanding as at 31 December 2006 which were granted under the Share Option Scheme are as follows:

Name of participants	Held on 1 January 2006	Number of options		Held on 31 December 2006	Exercise price HK\$	Grant date	Exercise period	
		Granted during the year	Exercised during the year				Begins	Ends
Executive and Non-executive Directors								
Lam Pak Lee	800,000	—	—	800,000	2.695	14 June 2005	1 July 2006	30 June 2008
	—	500,000	—	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
Chang Ching Yi, Steven	800,000	500,000	—	1,300,000				
	800,000	—	—	800,000	2.695	14 June 2005	1 July 2006	30 June 2008
Wong Yuet Leung, Frankie ⁽ⁱ⁾	—	500,000	—	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	800,000	500,000	—	1,300,000				
Leung Kwong Wai	500,000	—	—	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	800,000	—	—	800,000	1.980	28 June 2006	1 July 2007	30 June 2009
Huang Hsing Hua	—	500,000	—	500,000				
	800,000	500,000	—	1,300,000	2.695	14 June 2005	1 July 2006	30 June 2008
Lai Woon Ching	300,000	—	—	300,000	1.980	28 June 2006	1 July 2007	30 June 2009
	300,000	500,000	—	800,000				
Lo Wai Ming	300,000	—	—	300,000	2.695	14 June 2005	1 July 2006	30 June 2008
	—	500,000	—	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	300,000	500,000	—	800,000				
Subtotal	3,800,000	3,500,000	—	7,300,000				

(i) Mr. Wong Yuet Leung, Frankie was re-designated as an Independent Non-executive Director of the Company effective from 1 January 2007.

REPORT OF THE DIRECTORS (continued)

Share options (continued)

Name of participants	Held on 1 January 2006	Number of options		Held on 31 December 2006	Exercise price HK\$	Grant date	Exercise period	
		Granted during the year	Exercised during the year				Begins	Ends
Independent Non-executive Directors								
Choy Kwok Hung, Patrick	500,000	—	—	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	—	500,000	—	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	500,000	—	1,000,000				
Kao Kuen, Charles	500,000	—	—	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	—	500,000	—	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	500,000	500,000	—	1,000,000				
Sun, Patrick	800,000	—	—	800,000	2.695	14 June 2005	1 July 2006	30 June 2008
	—	500,000	—	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
	800,000	500,000	—	1,300,000				
Subtotal	1,800,000	1,500,000	—	3,300,000				
Senior Management								
Senior management	500,000	—	—	500,000	2.695	14 June 2005	1 July 2006	30 June 2008
	—	500,000	—	500,000	1.980	28 June 2006	1 July 2007	30 June 2009
Subtotal	500,000	500,000	—	1,000,000				
Total	6,100,000	5,500,000	—	11,600,000				

No option under the Share Option Scheme lapsed, or was cancelled or exercised during the year.

REPORT OF THE DIRECTORS (continued)

Share options (continued)

On 28 June 2006 when the relevant options were granted under the Share Option Scheme, the closing market value per share was HK\$1.75. The value of the options granted to the respective parties is as follows:

	HK\$'000	US\$'000
Dr. Lam Pak Lee	152	20
Mr. Leung Kwong Wai	152	20
Mr. Chang Ching Yi, Steven	151	19
Mr. Sun, Patrick	151	19
Prof. Kao Kuen, Charles	151	19
Mr. Choy Kwok Hung, Patrick	152	19
Mr. Wong Yuet Leung, Frankie	152	19
Mr. Huang Hsing Hua	152	20
Mr. Lai Woon Ching	152	20
Mr. Lo Wai Ming	152	20
Senior management	152	20
	<u>1,669</u>	<u>215</u>

The value of the options granted during the year is HK\$1,669,000 (approximately US\$215,000), based on the Black-Scholes valuation model. The significant inputs into the model were the share price of HK\$1.75 at the grant date, exercise price shown above, expected life of option of 2 years, expected dividend paid out rate of 10.86% and annual risk-free interest rate of 4.63%. The volatility of 53.8% measured at the standard deviation of the expected share price returns is based on statistical analysis of daily share prices from 29 June 2005 to 28 June 2006. 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.

REPORT OF THE DIRECTORS (continued)

Directors

The directors during the year and up to the date of this report were:

Mr. Sun, Patrick, Independent Non-executive Director (and Non-executive Chairman effective from 1 January 2007)

Dr. Lam Pak Lee, Non-executive Chairman (as Non-executive Director effective from 1 January 2007)

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. Lam Shun Fu, Percy, Executive Director (appointed on 23 October 2006)

Mr. Chang Ching Yi, Steven, Non-executive Director

Mr. Choy Kwok Hung, Patrick, Independent Non-executive Director

Prof. Kao Kuen, Charles, Independent Non-executive Director

Mr. Wong Yuet Leung, Frankie, Non-executive Director (as Independent Non-executive Director effective from 1 January 2007)

In accordance with Article 95 of the Company's Articles of Association, Mr. Lam Shun Fu, Percy appointed during the year, shall hold office until the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

In accordance with Article 112 of the Company's Articles of Association, Mr. Leung Kwong Wai, Mr. Sun Patrick, Mr. Choy Kwok Hung, Patrick and Prof. Kao Kuen, Charles, directors of the Company, will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Mr. Choy Kwok Hung, Patrick, Prof. Kao Kuen, Charles and Mr. Sun, Patrick are Independent Non-executive Directors and their service contracts were renewed in 2006 for a term expiring on 30 June 2008.

Furthermore, Mr. Wong Yuet Leung, Frankie, was re-designated as Independent Non-executive Director on 1 January 2007. His service contract was renewed in 2006 for a term expiring on 30 June 2008.

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 contract of significance in relation to the Group's business to which the Company, any of its subsidiaries, 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 20 to 21.

REPORT OF THE DIRECTORS (continued)

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 2006, 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 and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director		Ordinary shares of HK\$0.10 each in the Company as 31 December 2006				
		Directly owned Shares	options ^(vi)	Beneficially owned Shares	Total	Percentage
Chang Ching Yi, Steven	Long position	1,800,000	1,300,000	—	3,100,000	0.12%
	Short position	—	—	—	—	—
Choy Kwok Hung, Patrick	Long position	1,100,000	1,000,000	—	2,100,000	0.08%
	Short position	—	—	—	—	—
Huang Hsing Hua	Long position	7,168,000	800,000	2,192,000 ⁽ⁱ⁾	10,160,000	0.41%
	Short position	—	—	2,192,000 ⁽ⁱ⁾	2,192,000	0.09%
Kao Kuen, Charles	Long position	500,000	1,000,000	—	1,500,000	0.06%
	Short position	—	—	—	—	—
Lai Woon Ching	Long position	26,489,600	800,000	2,592,000 ⁽ⁱⁱⁱ⁾	29,881,600	1.19%
	Short position	—	—	2,592,000 ⁽ⁱⁱⁱ⁾	2,592,000	0.10%
Lam Pak Lee	Long position	25,800,000	1,300,000	—	27,100,000	1.08%
	Short position	—	—	—	—	—
Leung Kwong Wai	Long position	110,240,001	1,300,000	10,250,000 ⁽ⁱⁱⁱ⁾	121,790,001	4.87%
	Short position	—	—	10,250,000 ⁽ⁱⁱⁱ⁾	10,250,000	0.41%
Lo Wai Ming	Long position	28,328,000	800,000	4,192,000 ^(iv)	33,320,000	1.33%
	Short position	—	—	4,192,000 ^(iv)	4,192,000	0.17%
Sun, Patrick	Long position	—	1,300,000	—	1,300,000	0.05%
	Short position	—	—	—	—	—
Wong Yuet Leung, Frankie	Long position	—	1,000,000	—	1,000,000	0.04%
	Short position	—	—	—	—	—
Lam Shun Fu, Percy	Long position	—	—	1,300,000 ^(v)	1,300,000	0.05%
	Short position	—	—	1,300,000 ^(v)	1,300,000	0.05%

(i) Out of the 2,192,000 Shares held by Mr. Huang:

- (a) 1,600,000 Shares are subject to lock-up and shall be released in two equal tranches of 800,000 Shares each on 8 April 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 Plan¹; and
- (b) 592,000 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. 136,000 shares, 252,000 shares, and 204,000 shares shall be vested respectively on 28 April 2007, 8 June 2007 and 28 April 2008.

¹ Under the Pre-IPO Loyalty Plan, each of the beneficiaries is subject to lock-up for a period from the vesting date up to four years after the Listing Date. During the said lock-up period, the Shares are held by the Custodian. 25% of such Shares are released from the lock-up upon each of the anniversary of the Listing Date.

REPORT OF THE DIRECTORS (continued)

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

- (ii) Out of the 2,592,000 Shares held by Mr. Lai:
 - (a) 2,000,000 Shares are subject to lock-up and shall be released in two equal tranches of 1,000,000 Shares each on 8 April 2007 and 2008 respectively. These shares are held by the Custodian for Mr. Lai under the Pre-IPO Loyalty Plan; and
 - (b) 592,000 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. 136,000 shares, 252,000 shares, and 204,000 shares shall be vested respectively on 28 April 2007, 8 June 2007 and 28 April 2008.
- (iii) Out of the 10,250,000 Shares held by Mr. Leung:
 - (a) 6,000,000 Shares are subject to lock-up and shall be released in two equal tranches of 3,000,000 Shares each on 8 April 2007 and 2008 respectively. These shares are held by the Custodian for Mr. Leung under the Pre-IPO Loyalty Plan; and
 - (b) 4,250,000 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. 1,076,000 shares, 1,560,000 shares and 1,614,000 shares shall be vested respectively on 28 April 2007, 8 June 2007 and 28 April 2008.
- (iv) Out of the 4,192,000 Shares held by Mr. Lo:
 - (a) 3,600,000 Shares are subject to lock-up and shall be released in two equal tranches of 1,800,000 Shares each on 8 April 2007 and 2008 respectively. These shares are held by the Custodian for Mr. Lo under the Pre-IPO Loyalty Plan; and
 - (b) 592,000 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. 136,000 shares, 252,000 shares, and 204,000 shares shall be vested respectively on 28 April 2007, 8 June 2007 and 28 April 2008.
- (v) 1,300,000 Shares held by Mr. Lam are subject to a two year vesting period and held by the Trustee for the benefit of Mr. Lam under the Share Award Plan of the Company. 520,000 shares and 780,000 shares shall be vested respectively on 28 December 2007 and 28 December 2008.
- (vi) These are options granted under the Share Option Scheme (see section headed "Share Option Scheme" 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.

REPORT OF THE DIRECTORS (continued)

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 by the Company under section 336 of Part XV of the SFO shows that as at 31 December 2006, 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	173,968,800	6.95%
TIAA-CREF Investment Management, LLC	Beneficial Owner	Long	197,989,193	7.91%
Genesis Fund Managers, LLP	Investment Manager	Long	241,745,500	9.66%
Morgan Stanley Investment Management Limited	Investment Manager	Long	178,082,000	7.12%

Management contracts

No contract concerning the management and administration of the whole or any substantial part of any 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	41%
- five largest suppliers combined	77%
Sales	
- the largest customer	64%
- five largest customers combined	84%

None of the directors of the Company or their associates holds, nor does 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 26 March 2007.

Compliance with the Code on Corporate Governance Practices

The Company has complied with all applicable code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules during the year ended 31 December 2006.

REPORT OF THE DIRECTORS (continued)

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuer

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. Specific enquiry has been made to all Directors and all of them were in compliance with such guidelines during the year ended 31 December 2006.

Independent Auditor

The consolidated financial statements for the year ended 31 December 2006 have been audited by PricewaterhouseCoopers, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LEUNG Kwong Wai

Managing Director

Hong Kong, 26 March 2007