

## DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The activities of its principal subsidiaries and associate are set out in notes 17 and 33 respectively to the consolidated financial statements.

### **RESULTS**

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 25.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

### **MAJOR CUSTOMERS AND SUPPLIERS**

The five largest customers of the Group accounted for approximately 40% of the Group's total turnover and the largest customer accounted for approximately 22% of the Group's total turnover.

The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers.

### **SHARE CAPITAL**

Details of the share capital of the Company are set out in note 25 to the consolidated financial statements.

### **SHARE OPTION SCHEME**

The Company adopted an executive share option scheme (the "Scheme") which became effective on 31st May, 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 30th May, 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties.

Particulars of the Company's share option scheme are set out in note 26 to the consolidated financial statements.

## DIRECTORS' REPORT

### **SHARE OPTION SCHEME** *(Continued)*

No share options were granted under the Scheme. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors or any of their respective associates in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of grant of the share option. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant, and the nominal value of a share of the Company.

There is no outstanding share option and no share options were granted or exercised during the year.

### **PROPERTY, PLANT AND EQUIPMENT**

The Group continued its plant replacement policy and expended approximately HK\$1,500,000 on new plant and equipment during the year.

Details of these and other movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

### **MAJOR PROPERTIES**

Details of the major properties of the Group at 31st December, 2006 are set out on page 67 of the annual report.

## DIRECTORS' REPORT

### **DISTRIBUTABLE RESERVES OF THE COMPANY**

The Company's reserves available for distribution to shareholders as at 31st December, 2006 were as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Contributed surplus	<b>17,275</b>	17,275
Retained profits (accumulated losses)	<b>2,459</b>	(277)
	<b>19,734</b>	16,998

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

### **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

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

#### **Executive directors:**

Mr. Lam Po Kwai, Frankie  
 Ms. Wong Yau Ching, Maria  
 Ms. Lee Yuen Bing, Nina  
 Ms. So Man Yee, Katherine

#### **Non-executive director:**

Ms. He Ling (resigned on 1st July, 2006)

#### **Independent non-executive directors:**

Mr. Au Son Yiu  
 Mr. Lee Johnson  
 Mr. Tang Tin Sek

## DIRECTORS' REPORT

### **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS** *(Continued)*

In accordance with Bye-law 99 (as amended by Bye-law 182(vi)) of the Company's Bye-laws, Mr. Au Son Yiu and Mr. Lee Johnson retire, and being eligible, offer themselves for re-election.

The directors being proposed for re-election at the forthcoming annual general meeting do not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of a compensation (other than statutory compensation).

The non-executive directors have been appointed for a term subject to retirement by rotation as required by the Company's Bye-laws.

### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts 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.

### **CONNECTED TRANSACTIONS**

During the year, the Group acquired additional interests in a subsidiary, Bigfield Goldenford Holdings Limited ("Bigfield") from the minority shareholder, Mr. Lee Kun, details of which are as follows:

- (a) On 31st March, 2006, the Group acquired 16.67% interests in Bigfield increasing the Group's interest in Bigfield to 79.17%.
- (b) On 31st August, 2006, the Group further acquired 20.83% interests in Bigfield, since then Bigfield became the Group's wholly owned subsidiary.

During the period from 1st January, 2006 to 31st March, 2006 and from 1st April, 2006 to 31st August, 2006, the Group purchased goods amounted to approximately HK\$6,928,000 and HK\$9,345,000 respectively from Bigfield.

The independent non-executive directors confirm that the transaction has been entered into by the Company in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## DIRECTORS' REPORT

### **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES**

As at 31st December, 2006, the interests of the directors and the chief executives and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### **Long position – ordinary shares of HK\$0.1 each of the Company**

Name of director	Number of shares held		Total number of issued ordinary shares held	Percentage of the issued share capital of the Company
	Personal interest	Corporate interest		
	Mr. Lam Po Kwai, Frankie	72,545,785	104,729,411(a)	177,275,196(c)
Ms. Wong Yau Ching, Maria	19,073,433	–	19,073,433	3.99%
Ms. Lee Yuen Bing, Nina	10,867,059	24,367,798(b)	35,234,857(d)	7.37%
Ms. So Man Yee, Katherine	737,045	–	737,045	0.15%
Mr. Au Son Yiu	1,433,660	–	1,433,660	0.30%

Notes:

- (a) These shares are held through Carrson Holdings Investment Limited and Frankfort Capital Investment Limited, both of which are companies wholly owned by Mr. Lam Po Kwai, Frankie.
- (b) These shares are held through Join Admin Benefit Corporation Limited, a company wholly owned by Ms. Lee Yuen Bing, Nina.
- (c) Ms. Lee Yuen Bing, Nina is the wife of Mr. Lam Po Kwai, Frankie and is deemed to be interested in these shares.
- (d) Mr. Lam Po Kwai, Frankie is the husband of Ms. Lee Yuen Bing, Nina and is deemed to be interested in these shares.

Save as disclosed above, except for certain nominee shares in subsidiaries held by Mr. Lam Po Kwai, Frankie in trust for the Group, none of the directors or their associates had any interests or short positions in any shares of the Company or any of its associated corporations as at 31st December, 2006.

## DIRECTORS' REPORT

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Other than the share option scheme of the Company, at no time during the year was the 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, or debentures of, the Company or any other body corporate and none of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

### **SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than interest disclosed above in respect of certain directors and chief executives, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

#### **Long positions – ordinary shares of HK\$0.1 each of the Company**

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Solidpole Ltd.	Beneficial owner	34,855,428	7.29%
China Everbright Holdings Company Ltd.	Held by controlled corporation	34,855,428(a)	7.29%

Note (a): China Everbright Holdings Company Ltd. is the holding company of Solidpole Ltd. and is deemed to be interested in these shares.

Other than the interests disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 31st December, 2006.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **DONATIONS**

During the year, the Group made charitable and other donations amounting to approximately HK\$53,000.

## DIRECTORS' REPORT

### **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 31st December, 2006 with the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **EMOLUMENT POLICY**

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 26 to the consolidated financial statements.

### **APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

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 Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

### **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The audit committee comprises three members, Mr. Au Son Yiu, Mr. Lee Johnson and Mr. Tang Tin Sek. All of them are independent non-executive directors of the Company.

### **POST BALANCE SHEET EVENT**

Details of the significant event after the balance sheet date are set out in note 34 to the consolidated financial statements.

## DIRECTORS' REPORT

### **AUDITOR**

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Lam Po Kwai, Frankie**

*CHAIRMAN*

13th April, 2007