

REPORT OF THE DIRECTORS

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries comprise the trading of plastic and chemical products, the distribution and installation of building supplies, electrical and mechanical products, engineering contracting services in the air-conditioning industry and the provision of maintenance services, and investment holding. During the year, the Group acquired the entire equity interest in the SCI Group which is engaged in building related contracting services for both public and private sectors. Details of the principal subsidiaries and their activities are set out in note 17 to the financial statements. There were no other significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 96.

The directors recommend the payment of a final dividend of HK1 cent per share for the year ended 31 December 2006 (2005: Nil) to the shareholders whose names appear on the Company's register of members on 1 June 2007. Upon the shareholders' approval at the forthcoming annual general meeting of the Company, it is expected that the final dividend cheques will be despatched to the shareholders on or about 20 June 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONS REVIEW

A detailed review of the Group's business operations and outlook is included in the Chairman's Statement.

FINANCIAL REVIEW

Liquidity and financial resources

Total interest-bearing debts of the Group amounted to HK\$257 million as at 31 December 2006 (2005: HK\$185 million), of which HK\$209 million (2005: HK\$156 million) related to trust receipt loans. The increase in interest-bearing debts was mainly attributable to the trust receipt loans of HK\$54 million of the SCI Group as at year end. The SCI Group was acquired during the year. The debts were predominately due and repayable within one year. Current ratio of the Group at 31 December 2006, as measured by total current assets over total current liabilities, was 1.32 (2005: 1.35).

In October 2006, the Company completed the Open Offer. Net proceeds from the Open Offer amounted to HK\$56.8 million and were temporarily placed with leading banks as time deposits to support the Group's working capital need of the existing businesses.

Total cash on hand as at 31 December 2006 was HK\$206 million (2005: HK\$70 million) of which HK\$26.8 million were pledged to a bank to secure bank overdraft facilities granted to certain subsidiaries of the Company. The substantial increase in cash on hand was mainly due to the net proceeds from the Open Offer, the contribution from the SCI Group of HK\$64 million, a new bank term loan drawn and cash generated from business operations.

The Group had a total of HK\$234 million committed but undrawn banking facilities at year-end available for its working capital purpose. The gearing ratio of the Group, as measured by the net interest-bearing debts of HK\$51 million over the equity attributable to the holders of the parent of HK\$232 million, was 22% as at 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Funding and treasury policy

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group.

Pledge of assets

Certain properties having an aggregate book value of HK\$23.4 million as at 31 December 2006 and time deposits of HK\$26.8 million were pledged to secure the borrowings of the Group.

Contingent liability

Details of the significant contingent liabilities of the Group are set out in note 42 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

The Company's remuneration policy is built upon the principles of providing an equitable, motivating and market-competitive remuneration package that can stimulate and drive staff at all levels to work towards achieving the Group's strategic objectives.

The Group employed approximately 210 staff in Hong Kong, Macau and other parts of the People's Republic of China as at 31 December 2006. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

The remuneration of the executive directors of the Company has been reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Details of the directors' remuneration and the five highest paid individuals in the Company are set out in notes 8 and 9 to the financial statements.

REPORT OF THE DIRECTORS (continued)

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
CONTINUING OPERATIONS					
REVENUE	1,468,521	1,015,001	1,044,491	828,261	801,902
Profit/(Loss) for the year from Continuing Operations	17,031	5,412	12,879	(25,889)	(57,307)
DISCONTINUED OPERATION					
Profit/(loss) for the year from a discontinued operation	–	(1,960)	61	(1,511)	(1,342)
PROFIT/(LOSS) FOR THE YEAR	17,031	3,452	12,940	(27,400)	(58,649)
Profit/(loss) attributable to:					
– Equity holders of the parent	16,997	3,411	12,720	(27,818)	(58,885)
– Minority interests	34	41	220	418	236

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
TOTAL ASSETS	846,862	438,573	519,166	428,201	436,346
TOTAL LIABILITIES	(604,100)	(281,105)	(364,893)	(301,575)	(298,671)
MINORITY INTERESTS	(10,804)	–	(1,912)	(1,692)	(1,274)
	231,958	157,468	152,361	124,934	136,401

The information set out above does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 34 and 35 to the financial statements, respectively.

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Under the laws of Bermuda, the Company's reserves available for distribution to shareholders amounted to HK\$129,783,000 as at 31 December 2006, of which HK\$3,966,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$33,005,000, may be distributed to shareholders of the Company in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, purchases from the Group's five largest suppliers accounted for 34% of the total purchases for the year, and the largest supplier included therein amounted to 9%. Sales to the Group's five largest customers accounted for 31% of the total sales for the year, and largest customer included therein amounted to 16%.

None of the directors of the Company or any of their associates or any shareholders (which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and customers.

DIRECTORS

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

Executive directors:

James Sai-Wing Wong (*Chairman*)

Sek-Kee Yu

Frank Kwok-Kit Chu

Yuen-Keung Chan

(appointed on 4 January 2007)

Wai-Hong Ling

(appointed on 4 January 2007)

Peter Chi-Chung Luk

(resigned on 11 April 2006)

Non-executive director:

Herman Man-Hei Fung

Independent non-executive directors:

William Gage McAfee

David Chung-Shing Wu

Sou-Tung Chan

(appointed on 4 January 2007)

Tian-Quan Mo

(resigned on 4 October 2006)

In accordance with Bye-law 86 of the Company's Bye-laws, Messrs. Yuen-Keung Chan, Wai-Hong Ling and Sou-Tung Chan shall hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. David Chung-Shing Wu will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The Company has received from each of its independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and still considers them as independent.

BIOGRAPHIES OF DIRECTORS

Biographical details of the directors of the Company are set out on pages 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director has a service contract with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 39 to the financial statements and the section headed "Connected Transaction" below, none of the directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept 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 in the Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name of directors	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests		
James Sai-Wing Wong	–	–	218,138,283 (Note)	218,138,283	55.00%
Frank Kwok-Kit Chu	48,240	47,840	–	96,080	0.02%
	48,240	47,840	218,138,283	218,234,363	55.02%

Note: Amongst these shares, 115,395,797 shares are held by Multi-Investment Group Limited and 102,742,486 shares are held by EIL, in both of which Dr. James Sai-Wing Wong is a director and have beneficial interests.

The interests of the directors in the share options of the Company are separately disclosed under the share option scheme disclosures in note 35 to the financial statements.

The Company has no outstanding debentures.

Save as disclosed above, as at 31 December 2006, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 35 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme as disclosed pursuant to the requirements as contained in Chapter 17 of the Listing Rules are set out in note 35 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2006, the interests and short positions of those persons in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the issued share capital
James Sai-Wing Wong	1, 2	Interest through controlled corporations	218,138,283	55.00%
Madeline May-Lung Wong	1	Interest through a controlled corporation	115,395,797	29.10%
Lucky Year Finance Limited	1	Interest through a controlled corporation	115,395,797	29.10%
Chinney Holdings Limited	1	Interest through a controlled corporation	115,395,797	29.10%
Chinney Investments	1	Interest through a controlled corporation	115,395,797	29.10%
Newsworthy Resources Limited	1	Interest through a controlled corporation	115,395,797	29.10%
Multi-Investment Group Limited	1	Beneficial owner	115,395,797	29.10%
EIL	2	Beneficial owner	102,742,486	25.90%

Notes:

1. Dr. James Sai-Wing Wong, Ms. Madeline May-Lung Wong, Lucky Year Finance Limited, Chinney Holdings Limited, Chinney Investments, Newsworthy Resources Limited and Multi-Investment Group Limited are deemed to be interested in the same parcel of 115,395,797 shares by virtue of Section 316 of the SFO; and
2. EIL is beneficially owned by Dr. James Sai-Wing Wong solely.

No share options of the Company were held by the above shareholders as at 31 December 2006.

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTION TRANSACTION

On 12 April 2006, the Company sold 32,000,000 shares in Shun Cheong, representing approximately a 27.60% interest in the issued share capital of Shun Cheong, to Upsky, which is wholly owned by Mr. Tian-Quan Mo, a director of the Company who resigned on 4 October 2006, for an aggregate cash consideration of HK\$9.6 million. The consideration was arrived at by the Board after arm's length negotiation with Upsky, after considering the loss-making track record of the business of Shun Cheong and the historical share price performance of Shun Cheong. The transaction constituted a discloseable and exempt connected transaction of the Company and was subject to the reporting and announcement requirements in accordance with Rule 14A.32 of the Listing Rules. Details of the transaction were set out in the Company's newspaper announcement dated 13 April 2006 and the circular to its shareholders dated 8 May 2006.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Sek-Kee Yu
Director

Hong Kong, 17 April 2007