

Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 40 to the financial statements. There were no 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 Group at that date are set out in the financial statements on pages 31 to 81.

An interim dividend of 3 HK cents per ordinary share was paid on 11 October 2006. The directors recommended the payment of a final dividend of 7 HK cents per ordinary share in respect of the year to shareholders on the register of members on 5 June 2007.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years/periods, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 82. This summary 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 Group during the year are set out in notes 15 and 17 to the financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, is set out in note 31 to the financial statements.

SHARE OPTION INFORMATION

A summary of the share option scheme and details of the movement in share option of the Company during the year are set out in note 32 to the financial statements.

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 its existing shareholders.

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PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased 110,000 (2005: Nil) ordinary shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited as follows:

Month	Number of shares	Price per share		Total price paid HK\$
		Highest HK\$	Lowest HK\$	
November 2006	72,000	1.45	1.45	104,400
December 2006	38,000	1.45	1.45	55,100
	110,000			159,500

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK\$148,500 (2005: Nil) has been charged to the share premium account and accumulated profits. An amount equivalent to the par value of the shares cancelled has been transferred from the accumulated profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed herein, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of The Companies Act 1981 of Bermuda (as amended), amounted to HK\$183,850,000, of which HK\$23,319,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$296,041,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK\$815,000 (2005:HK\$1,391,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 32% of the total sales for the year and sales to the largest customer included therein amounted to 10%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

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DIRECTORS

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

Executive directors:

Lam Foo Wah

Hui Yip Wing

Wong Shing Loong, Raymond

So Siu Hang, Patricia

Non-executive directors:

Chan Wah Tip, Michael

Yeung Kwok Wing (appointed on 1 March 2007)

Independent non-executive directors:

Woo King Wai

Wong Shiu Hoi, Peter

Leung Hok Lim

In accordance with bye-law 87 of the Company's Bye-laws, Ms. So Siu Hang, Patricia, Mr. Chan Wah Tip, Michael and Mr. Woo King Wai will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 86(2) of the Company's Bye-laws, Professor Yeung Kwok Wing who was appointed a Non-Executive Director of the Company on 1 March 2007, will hold office until the forthcoming annual general meeting and, being eligible, offers himself for re-election.

INDEPENDENCE CONFIRMATION

Pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), each independent non-executive director re-affirmed his independent status with the Company as at 31 December 2006, and the Company considered that they are independent.

DIRECTORS' EMOLUMENT

Details of the Directors' emoluments for year 2006 are set out in the Remuneration Committee of the Corporate Governance Report on page 26, and particulars as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 9 and 10 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 14 of the annual report.

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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 which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Chan Wah Tip, Michael, a director of the Company, was interested in contracts for the provision of legal advisory services to the Group. Further details of the transactions undertaken in connection therewith are included in note 37 to the financial statements. Save as disclosed above, no director 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' AND CHIEF EXECUTIVES' LONG AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the long and short positions of the directors, chief executives of the Company and their associates 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 ("SFO")) which have been notified to the Company pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including long and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

(i) Long Positions in the Company's Shares and Underlying Shares

Name of Directors	Note(s)	Capacity	Nature of interests	Number of shares held	Number of underlying shares held	Total	Percentage of the Company's issued capital (Note 4)
Lam Foo Wah	1, 2	Other Interest	Other	139,433,986	–	139,433,986	41.73%
Hui Yip Wing		Interest of spouse	Family	2,652,007	–	2,652,007	0.79%
Wong Shing Loong, Raymond		Beneficial owner	Personal	2,900,000	–	2,900,000	0.87%
So Siu Hang, Patricia	3	Beneficial owner	Personal	2,104,309	720,000	2,824,309	0.85%

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DIRECTORS' AND CHIEF EXECUTIVES' LONG AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Cont'd)*

(iii) Long Position in Shares of Associated Corporation

Name of Director	Note	Name of associated corporation	Relationship with the Company	Capacity	Number of ordinary shares held	Percentage of the associated corporation's issued capital
Lam Foo Wah	5	High Fashion Knitters Limited	Subsidiary	Interest of controlled corporations	5,339,431	35.60%

Notes:

- Mr. Lam Foo Wah is deemed to have an interest in 104,516,419 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
- Mr. Lam Foo Wah is deemed to have an interest in 34,917,567 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
- Details of the interests of directors and chief executives of the Company in the underlying shares of equity derivatives are in respect of share options granted to her are stated in note 32 to the financial statements.
- The issued share capital of the Company is 334,161,550 shares as at 31 December 2006.
- These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, as at 31 December 2006, none of the directors, chief executives of the Company nor their associates had or was deemed to have any long or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the above mentioned Model Code of the Listing Rules. Furthermore, save as disclosed in the "Share Option Information" section above, at no time during the year ended 31 December 2006 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following substantial shareholders, other than directors and chief executives of the Company, had the long and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to section 336 of SFO:

Long Positions in the Company's Ordinary Shares:

Name of shareholders	Notes	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Hinton Company Limited	1	Beneficial owner	104,516,419	31.28%
Veer Palthe Voute NV ("VPV")	2	Investment manager	49,337,000	14.76%
Dresdner Bank Aktiengesellschaft ("DBAG")	2	Interest of controlled corporations	49,337,000	14.76%
Allianz Aktiengesellschaft ("AAG")	2	Interest of controlled corporations	49,337,000	14.76%
High Fashion Charitable Foundation Limited	1	Beneficial owner	34,917,567	10.45%
Excel Investments Ltd.		Beneficial owner	25,800,000	7.72%

Notes:

- Such interests have been disclosed as interests of Mr. Lam Foo Wah in the "Directors' and Chief Executives' Long and Short Positions in Shares, Underlying Shares and Debentures" above.
- 49,337,000 ordinary shares are held directly by VPV, of which is indirectly controlled by AAG and DBAG and therefore AAG and DBAG are deemed to have an indirect interest in the 49,337,000 ordinary shares.

Save as disclosed above, as at 31 December 2006, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Long and Short Positions in Shares, Underlying Shares and Debentures" above, had registered a long or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, there is a sufficiency of public float of the Company's securities as required under the Listing Rules.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are disclosed in note 39 to the financial statements.

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CORPORATE GOVERNANCE

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the accounting year ended 31 December 2006, except code provision on A.2.1 on the separate roles of the chairman and CEO. Details of the Company's corporate governance report are set out on pages 22 to 29.

AUDITORS

The financial statements for the year ended 31 December 2006 were audited by Deloitte Touche Tohmatsu.

Deloitte Touche Tohmatsu were appointed auditors of the Company on 24 May 2004 in place of Ernst & Young who acted as the auditors of the Company for the years before 2004 annual general meeting, retired and did not offer themselves for re-appointment at 2004 annual general meeting.

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LAM FOO WAH

Chairman

Hong Kong, 11 April 2007