

Directors' Report

The Directors are pleased to present their report and the audited financial statements 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 18 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 Company and the Group at that date are set out in the financial statements on pages 29 to 69.

The Directors do not recommend the payment of any dividend for the year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published consolidated/combined financial results and consolidated/combined assets, liabilities and minority interests of the Group for the last five financial years is set out on pages 70 of the Annual Report. The 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 ended 31 December 2006 are set out in notes 14 and 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2006 are set out in notes 28 and 29 to the financial statements, respectively.

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

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, so far as the Directors are aware, the following persons (who are not Directors) have interests or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or who is directly or indirectly interested in 5% or more in the issued share capital of the Company:

Name of substantial shareholders	Class of shares	Capacity	Number of shares held	Approximate percentage of shareholding in the total issued share capital
Z-Idea Company Limited (Note 1)	Ordinary shares	Beneficial Owner	249,000,000(L)	62.25
Good Day International Limited (Note 2)	Ordinary shares	Beneficial Owner	45,000,000(L)	11.25
Ms. Wu Lixia (Note 3)	Ordinary shares	Interest of controlled corporation	45,000,000(L)	11.25

Note:

1. Z-Idea Company Limited is wholly owned by Zhang Shuyang, an executive Director of the Company.
2. Good Day International Limited is owned by Ms. Wu Lixia and Mr. Zhang Xuancheng, the minority son of Zhang Shuyang, as to 95% and 5% respectively. Ms. Wu Lixia is the mother of Mr. Zhang Xuancheng.
3. The interest in 45,000,000 shares are deemed corporate interest through Good Day International Limited.
4. The letter "L" denotes a long position.

Save as disclosed above, so far as the Directors are aware, no other person was interested in or had a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at 31 December 2006.

SHARE OPTION SCHEME

On 22 June 2004, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme") were approved and adopted by the shareholders of the Company, under which, the Board may, at their sole discretion, grant to any employee of the Group (including any executive directors of the Company) options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Pre-IPO Share Option Scheme and the Share Option Scheme.

As stipulated in the Pre-IPO Share Option Scheme, no further options can be granted under the Pre-IPO Share Option Scheme from 15 July 2004, being the date on which the Company's shares were listed on the Stock Exchange.

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(a) Pre-IPO Share Option Scheme

As at 31 December 2006, options to subscribe for 35,000,000 shares in aggregate at an exercise price of HK\$1.068 have been granted by the Company to a total of 91 employees of the Company. Particulars of the options which have been granted to (i) all Directors; and (ii) continuous contract employees of the Group under the Pre-IPO Share Option Scheme are set out below:

Grantee	Date of grant	Exercise price (HK\$)	Number of option shares			Balance as at 31 December 2006	Exercisable period
			Granted during the year ended 31 December 2006	Exercised during the year ended 31 December 2006	Cancelled/ lapsed during the year ended 31 December 2006		
(i) Directors							
Zhang Shuyang (Executive Director)	25/06/2004	1.068	2,300,000	—	—	2,300,000	25/06/2004 – 24/06/2014 (Note)
Tung Chi Wai, Terrence (Executive Director)	25/06/2004	1.068	1,950,000	—	—	1,950,000	25/06/2004 – 24/06/2014 (Note)
Kazunori Watanabe (Executive Director)	25/06/2004	1.068	1,600,000	—	—	1,600,000	25/06/2004 – 24/06/2014 (Note)
						Sub-total	5,850,000
(ii) Other continuous contract employees							
Senior management employees	25/06/2004	1.068	10,600,000	—	(1,970,000)	8,630,000	25/06/2004 – 24/06/2014 (Note)
Other employees	25/06/2004	1.068	17,870,000	—	(1,880,000)	15,990,000	25/06/2004 – 24/06/2014 (Note)
						Sub-total	(3,850,000) 24,620,000

Note:

Each option has a 10-year exercise period commencing from 25 June 2004 to 24 June 2014. Within the 10-year exercise period, there is a total vesting period of four years. Commencing on the first, second, third and fourth anniversaries of the date of grant of the option, the relevant grantee may exercise up to 0%, 33%, 67% and 100%, respectively of the shares comprised in his or her option (less any number of shares in respect of which the option has been previously exercised).

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(b) Share Option Scheme

As at 31 December 2006, no options has been granted under the Share Option Scheme adopted by the Company on 22 June 2004.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Laws (2004 Revision) of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2006 are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK\$175.6 million. The distributable reserves include the Company's share premium and contributed surplus, a total of HK\$151.5 million as at 31 December 2006, which may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 46.2% of the total sales for the year and sales to the largest customer included therein amounted to 10.1%. Purchases from the Group's five largest suppliers accounted for 28.2% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10.3%.

None of the Directors 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.

DIRECTORS

The Directors of the Company during the year ended 31 December 2006 were:

Executive directors:

Mr. Zhang Shuyang
Mr. Tung Chi Wai, Terrence
Mr. Kazunori Watanabe

Independent non-executive directors:

Mr. Ede Hao Xi, Ronald
Mr. Ts'o Shun, Roy
Mr. Li Yueh Chen

Pursuant to articles 86(2) and 87(1) of the Company's articles of association, Mr. Zhang Shuyang and Mr. Kazunori Watanabe will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of shareholders of the Company scheduled for 15 June 2007 (the "AGM"). Mr. Ts'o Shun, Roy will resign from the Board at the forthcoming AGM for personal reasons. Mr. Ts'o has confirmed that he has no disagreement with the Board or the Group and there is nothing that needs to be brought to the attention of the shareholders in relation to his resignation. The Board has proposed that, subject to approval of the shareholders at the AGM, Mr. Mu Xiangming be appointed to the Board as an independent non-executive director for a term of two years with immediate effect from the date of the AGM.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 13 to 15.

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DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company on 22 June 2004 for an indefinite term subject to termination by either party giving not less than three months' written notice. They may receive discretionary bonuses to be determined by the Board but the amount in aggregate will not exceed 5% of the audited consolidated net profit of the Group (after tax and minority interests but before extraordinary items) in respect of that financial year of the Group.

Each of the independent non-executive directors has entered into a letter of appointment with the Company for a term of two years for an annual fee ranging from HK\$120,000 to HK\$150,000.

Apart from the foregoing, no Director proposed for re-election at the AGM 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

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, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2006.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence during the year ended 31 December 2006.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the Directors had any interest in a business which competes or may compete with the businesses of the Group during the year ended 31 December 2006.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the interests and short positions of the Directors in the share capital, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have been taken under such provisions of 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, were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Capacity	Number of Shares held through corporation	Approximate percentage of the Company's issued capital (%)
Mr. Zhang Shuyang (Note (a))	Beneficial owner	249,000,000	62.25
Mr. Tung Chi Wai, Terrence (Note (b))	Beneficial owner	6,000,000	1.50

The interests of the Directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

Notes:

- (a) The interest in 249,000,000 shares are deemed corporate interest through Z-Idea company Limited which is wholly owned by Mr. Zhang Shuyang.
- (b) The interest in 6,000,000 shares are deemed corporate interest through T-Square Company Limited which is wholly owned by Mr. Tung Chi Wai, Terrence.

A long position in the shares and underlying shares of an associated corporation (within the meaning of Part XV of the SFO):

Name of Director	Name of associated corporation	Nature of interest	Number of shares directly and indirectly held in associated corporation	Percentage of the associated corporation's issued share capital (%)
Mr. Zhang Shuyang	Z-Idea Company Limited	Corporate	38,000,000	100

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 Division 7 and 8 of Part XV of 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 29 to the financial statements and the paragraph headed "Share Option Schemes" above, at no time during the year ended 31 December 2006 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, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group had no connected transaction with connected parties.

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CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 16 to 19.

AUDIT COMMITTEE

The Company has an audit committee, which was established on 22 June 2004 in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control system and providing advice and comments to the Board. The audit committee consists of three independent non-executive directors of the Company.

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2006.

AUDITORS

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

On Behalf of the Board

Zhang Shuyang

Chairman

Hong Kong

25 April 2007