

## 22 Report of the Directors

The directors of the Company (the “Directors”) have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 41 to the financial statements.

### SEGMENTAL INFORMATION

Details of segmental information are set out in note 5 to the financial statements.

### RESULTS, APPROPRIATION, AND BONUS ISSUE OF SHARES

An interim dividend of 3 HK cents (2005: 2 HK cents) per share, totaling HK\$8,587,000 was paid on 17 October 2006. The Directors now recommend the payment of a final dividend of 11 HK cents (2005: 11 HK cents) per share, and a special dividend of 5 HK cents (2005: nil) per share in respect of the year ended 31 December 2006. Subject to the approval at the forthcoming annual general meeting, the final dividend and special dividend will be payable on or after 5 June 2007 to the shareholders whose names appear on the register of members at the close of the business on 16 May 2007.

The Directors also propose to make a bonus issue of one new share of HK\$0.1 each credited as fully paid for every ten shares held to the shareholders whose names appear on the register of members at the close of the business on 16 May 2007. Subject to the approval at the forthcoming annual general meeting, share certificates for the bonus issue will be posted to the shareholders on 29 May 2007.

The register of members of the Company will be closed from 17 May 2007 to 22 May 2007 (both dates inclusive). In order to qualify for the proposed final dividend, proposed special dividend and proposed bonus issue of shares, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 16 May 2007.

No arrangement has been made under which a shareholder has waived or agreed to waive any dividends.

### FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 85 to 86.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Purchases	Sales
The largest customer	–	8%
Five largest customers in aggregate	–	33%
The largest supplier	8%	–
Five largest suppliers in aggregate	28%	–

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent HK\$24,376,000 (2005: HK\$15,129,000) on additions to property, plant and equipment to further upgrade its manufacturing capabilities, and to build the retail platform and opening of retail stores. Details of movements in property, plant and equipment are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

As at 31 December 2006, the Company's reserves available for cash distribution amounted to HK\$261,322,000 (2005: HK\$230,425,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK\$94,820,000 (2005: HK\$94,820,000) as at 31 December 2006 may be distributed in the form of fully paid bonus shares.

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### DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$992,000 (2005: HK\$870,000).

### DIRECTORS

The Directors during the financial year were:

#### Executive Directors

Mr. Ngan Hei Keung	<i>(Chairman)</i>
Madam Ngan Po Ling, Pauline	<i>(Deputy Chairman and Managing Director)</i>
Mr. Ho Hung Chu, Peter	<i>(Chief Executive Officer)</i>

#### Independent Non-executive Directors

Mr. Leung Shu Yin, William	
Mr. Tse Kam Fow	
Mr. Lo Hang Fong	
Mr. Liu Tieh Ching, Brandon, JP	(appointed on 11 August 2006)

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 Listing Rules and considers all the independent non-executive directors to be independent.

All the Directors, excluding Chairman and Managing Director, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-Laws No. 87 of the Company.

In accordance with the Company's Bye-Law No. 87, Mr. Tse Kam Fow shall retire by rotation at the forthcoming annual general meeting. Mr. Liu Tieh Ching, Brandon, JP, being Director appointed by the Board after the Company's annual general meeting held on 16 May 2006, will hold office until the forthcoming annual general meeting pursuant to the Company's Bye-Law No. 86(2). Both the retiring Directors, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline has entered into a service contract with the Company which may be terminated by not less than twelve months' notice in writing served by either party.

Mr. Ho Hung Chu, Peter has entered into a service contract with the Company, which may be terminated by not less than six months' notice in writing served by either party.

Mr. Lo Hang Fong has entered into a service contract with the Company, which may be terminated by not less than three months' notice in writing served by either party.

Mr. Liu Tieh Ching, Brandon, JP has entered into a service contract with the Company for an initial term of one year starting 11 August 2006, renewable automatically for successive terms of one year, which may be terminated by not less than three months' notice in writing served by either party provided that the notice shall not expire before the expiry of the initial term.

Save as disclosed above, none of the Directors has an unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 40 to the financial statements and in the section "Connected Transaction" below, no contract of significance to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

## CONNECTED TRANSACTION

During the year, the Group paid rental totaling HK\$960,000 under operating lease in respect of office premises to a company beneficially owned by Mr. Ngan Hei Keung.

The above connected transaction was conducted on normal commercial terms and on an arm's length basis and where applicable in accordance with the terms of the agreement governing such transaction, and is fair and reasonable so far as the shareholders of the Company are concerned.

The above transaction has been confirmed by the Independent Non-executive Directors of the Company.

### DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### Long positions in the shares and underlying shares of the Company

	Number of shares			Total	Percentage of interest
	Personal interest	Other direct interest	Underlying shares		
Mr. Ngan Hei Keung	–	193,000,000 (note)	–	193,000,000	67.42%
Madam Ngan Po Ling, Pauline	–	193,000,000 (note)	–	193,000,000	67.42%

Note: 193,000,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests in the shares or underlying shares of the Company or any of its associated corporations as defined in the SFO.

### SHARE OPTION SCHEMES

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and Executive Directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the “Old Scheme”). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the “New Scheme”) was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees and non-executive directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 27,760,053, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme.

The New Scheme will remain in force for a period of 10 years from the date of its adoption. The purpose of the New Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group.

Unless approved by shareholders in general meeting, the total number of shares issued and which may fall to be issued upon exercise of the options of the New Scheme and the options granted under any other schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company at the relevant time.

An option may be exercised in accordance with the terms of the New Scheme at any time during the period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses in accordance with the terms of the New Scheme and 10 years from the date of offer of that option. A consideration of HK\$1 will be payable upon acceptance of the offer.

As at the date of annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 2,038,053 shares, which represented 0.7% of the issued share capital of the Company as at 31 March 2007.

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At 31 December 2006, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares in the Company (market value per share is HK\$2.59 at the balance sheet date) granted at nominal consideration under the share option schemes operated by the Company, each option gives the holder the right to subscribe for one share:

	Date of grant	Period during which options exercisable	Exercise price (HK\$)	Outstanding at 1.1.2006 and 31.12.2006	Market value per share at date of grant (HK\$)
<b>Old Scheme</b>					
Employees	11.06.2001	11.06.2002 – 10.06.2009	1.228	404,000	1.54
<b>New Scheme</b>					
Employees	03.07.2002	03.07.2003 – 02.07.2010	2.700	10,750,000	2.70
	12.02.2003	12.02.2004 – 11.02.2011	2.205	1,120,000	2.20
	03.06.2003	03.06.2004 – 02.06.2013	2.300	10,006,000	2.30
				21,876,000	
Customers and suppliers	03.07.2002	03.07.2003 – 02.07.2010	2.700	1,950,000	2.70
	03.06.2003	03.06.2004 – 02.06.2013	2.300	600,000	2.30
				2,550,000	

Apart from the foregoing, at no time during the year was the Company, its holding company or subsidiaries a party to any arrangements to enable the Company's Directors or chief executives or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executives of the Company, as at 31 December 2006, the following declarations of interests by shareholders (other than Directors) holding 5% or more of the issued share capital of the Company was recorded in the register required to be kept by the Company under Section 336 of the SFO:

	Capacity	Number of shares	Percentage of shareholding
Successful Years International Co., Ltd. (note)	Beneficial owner	193,000,000	67.42%
Amex International Trust (Cayman) Ltd. (note)	Trustee	193,000,000	67.42%

Note: Successful Years International Co., Ltd. is owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members. Amex International Trust (Cayman) Ltd. is the trustee of the two trusts.

The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" above.

Save as disclosed above, as at 31 December 2006, the Company had not been notified by any persons (other than Directors) who had interests in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## RETIREMENT SCHEMES

Particulars of retirement schemes operated by the Group are set out in note 14 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 existing shareholders.

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

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## SUFFICIENCY OF PUBLIC FLOAT

The Directors confirm that, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has sufficient public float as at 16 April 2007, being the date of this report.

## AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to appoint the auditors of the Company.

There has been no change of auditors of the Company in the preceding three years.

By order of the Board

**Ngan Hei Keung**  
*Chairman*

Hong Kong, 16 April 2007