

Directors' Report

The directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31st December, 2006.

Principal Activities

During the year, the Company acted as an investment holding company and the activities of its principal subsidiaries were investment holding, property and asset management, garment manufacturing and trading and property investment and development.

Other particulars of the principal subsidiaries of the Company as at 31st December, 2006 are set out in note 50 to the consolidated financial statements.

Segmental Analysis of Operations

An analysis of the Group's performance for the year by geographical and business segments is set out in note 7 to the consolidated financial statements.

Results And Appropriations

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 38.

The state of affairs of the Group as at 31st December, 2006 is set out in the consolidated balance sheet on pages 39 and 40.

An interim dividend of HK5 cents (2005: HK4 cents) per share amounting to HK\$30.8 million (2005: HK\$21.4 million) was paid to the shareholders during the year. The directors has resolved to recommend for shareholders' approval at the forthcoming annual general meeting the payment of a final dividend of HK7 cents per share for the year under review (2005: HK6 cents) to the shareholders whose names appear on the register of members at the close of business on 23rd May, 2007, amounting to HK\$41.4 million (2005: HK\$33.1 million).

Share Capital and Warrants

Details of the movements in the share capital and outstanding warrants of the Company during the year are set out in notes 38 and 39 to the consolidated financial statements respectively.

Distributable Reserves

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

	2006 HK\$'000	2005 HK\$'000
Contributed surplus	190,081	190,081
Retained profits	1,522,231	1,592,724
	<u>1,712,312</u>	<u>1,782,805</u>

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 amount of its liabilities and its issued share capital and share premium accounts.

Pre-emptive Rights

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

Investment Properties

All the investment properties of the Group were revalued at 31st December, 2006. The net increase in fair value of investment properties amounting to HK\$708.9 million has been credited directly to the consolidated income statement (2005: HK\$1,251.1 million).

Details of the movements during the year in the investment properties of the Group are set out in note 19 to the consolidated financial statements.

Property, Plant and Equipment

In 2005, properties under development with a total carrying value of HK\$200.0 million and HK\$273.1 million were transferred to properties held for sale and investment properties respectively. Additions of properties under development for the year amounted to HK\$28.8 million (2005: HK\$102.3 million).

Details of the development properties and other movements during the year in the property, plant and equipment of the Group are set out in note 20 to the consolidated financial statements.

Principal Properties

Details of the principal properties of the Group held for investment and sale purposes and under development at 31st December, 2006 are set out in the Property Portfolio on pages 4 to 6.

Directors

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

Executive directors

Mr. Lu Wing Chi
(Chairman and Managing Director)
Mr. Lu Wing Yuk, Andrew
Mr. Tse Man Bun
Mr. Lincoln Lu
Mr. Lambert Lu

Directors' Report

Non-executive director

Mr. Lam Sing Tai (appointed on 7th April, 2006)

Independent non-executive directors

Mr. Walujo Santoso, Wally

Mr. Leung Hok Lim

Mr. Chung Pui Lam

In accordance with Bye-laws 88(A), 88(B) and 89 of the Company's Bye-laws, Messrs. Lambert Lu, Chung Pui Lam and Walujo Santoso, Wally will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. All other remaining directors shall continue in office.

Brief biographical details of the directors are set out on pages 16 and 17.

Directors' Service Contracts

None of the directors of the Company proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts of Significance

No contracts of significance (in relation to the Group's business) to which the Company or any of its holding companies or subsidiaries was a party and in which a director or a controlling shareholder 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.

Arrangements for Directors to Acquire Shares and Debentures

Other than the share options as more fully described below, at no time during the year was the Company, any of its holding companies or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the following directors are considered to have interests in business which compete, or is likely to compete, either directly or indirectly, with the business of the Group:

- (i) Mr. Lu Wing Chi also has shareholdings (on behalf of himself and his associates) and holds directorships in a number of private companies controlled by, or owned in conjunction with, his close relatives and associates. From time to time, such companies are involved in real estate development and investment, and textile manufacturing and trading. In this regard, Mr. Lu is considered to have interests in businesses which compete or is likely to compete, either directly or indirectly, with the businesses of the Group.

- (ii) Mr. Lu Wing Yuk, Andrew is also the managing director of Kian Nan Trading Company Limited whose businesses include textile manufacturing and trading. He has shareholdings (on behalf of himself and his associates) and holds directorships in a number of private companies controlled by, or owned in conjunction with, his close relatives and associates. From time to time, such companies are involved in real estate development and investment. In this regard, Mr. Lu is considered to have interests in businesses which compete or is likely to compete, either directly or indirectly, with the businesses of the Group.
- (iii) Mr. Tse Man Bun is also an independent non-executive director of HSBC Insurance (Asia) Limited, China Fishery Group Limited, Tysan Holdings Limited and Crystal International Limited. The principal businesses of Tysan Holdings Limited include building construction, and property development, investment and management. In this regard, he is considered to have interests in businesses which compete or is likely to compete, either directly or indirectly, with the businesses of the Group. The principal businesses of Crystal International Limited include garment trading and manufacturing. However, having considered the scale of garment business the Group is involved, Mr. Tse is not considered by the Group to have interests in businesses which compete or is likely to compete, either directly or indirectly, with the businesses of the Group in this regard. In addition, Mr. Tse and his associates are involved from time to time in real estate investments. Again, the scale and nature of such investments do not fit the investment profile of the Group. Hence, Mr. Tse is not considered by the Group to have interests in businesses which compete or is likely to compete with the businesses of the Group as a result of such investments.
- (iv) Messrs. Lincoln Lu and Lambert Lu are the sons of Mr. Lu Wing Chi. In this regard, Messrs. Lincoln Lu and Lambert Lu are considered to have interests in the competing businesses in which Mr. Lu Wing Chi is deemed interested. Messrs. Lincoln Lu and Lambert Lu also have shareholdings (on behalf of themselves and their associates) and hold directorships in a number of private companies controlled by, or owned in conjunction with, their close relatives and associates. From time to time, such companies are involved in real estate development and investment, and textile manufacturing and trading. In this regard, Messrs. Lincoln Lu and Lambert Lu are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.
- (v) Mr. Lam Sing Tai who holds directorships in a number of the members of the Group does not have any interests in businesses which compete or is likely to compete, either directly or indirectly, with the businesses of the Group.

However, as the board of directors of the Company as a whole is independent of the above individuals and of the boards of directors of the above companies, the Group is capable of carrying on its businesses independently of, and at arm's length from, the said competing businesses.

Management Contracts

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its holding companies or subsidiaries were entered into or subsisted during the year.

Directors' Report

Directors' and Chief Executives' Interests in Securities

At 31st December, 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO), as 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 Issuers (the "Model Code") contained in the Listing Rules, were as follows:

1. Long positions in shares and underlying shares of the Company

Name of directors	Number of shares of HK\$0.1 each		Number of underlying shares (warrants) (share options)			Total	% of shares in issue
	Interests held		Interests held				
	Beneficial interests	by controlled corporation	Beneficial interests	by controlled corporation	Beneficial interests		
Lu Wing Yuk, Andrew	—	—	—	—	3,000,000	3,000,000 ^Δ	0.51
Tse Man Bun	100,000	—	—	—	—	100,000	0.02
Lincoln Lu	1,200,000	309,625,749	572,717	51,325,190	—	362,723,656*	62.21
Lambert Lu	1,200,000	309,625,749	572,717	51,325,190	—	362,723,656*	62.21
Lam Sing Tai	90,000	—	11,478 [#]	—	—	101,478	0.02

Notes: ^Δ The options were granted on 4th December, 2000, the exercise price is HK\$1.44 per share and the exercisable period is from 4th December, 2000 to 3rd December, 2010.

* (1) Of these shares and warrants of the Company, 309,625,749 shares and warrants carrying 51,325,190 underlying shares deemed to be the interests of Messrs. Lincoln Lu and Lambert Lu represented the same interests and were, therefore, duplicated between these two directors for the purpose of the SFO. The said 309,625,749 shares and warrants carrying 51,325,190 underlying shares were held by Nan Luen International Limited ("NLI"), which was 63.58% owned by JCS Limited ("JCS") and was 3.21% owned by each of Messrs. Lincoln Lu and Lambert Lu.

(2) JCS was 26.09% owned by a discretionary trust, of which both directors are beneficiaries. In addition, Messrs. Lincoln Lu and Lambert Lu were each interested in 11.95% of the issued shares in JCS directly. JCS is deemed to be a controlled corporation of each of Messrs. Lincoln Lu and Lambert Lu by virtue of the SFO.

Of these shares, 5,739 shares were held by the spouse of Mr. Lam Sing Tai.

2. Long positions in shares and underlying shares of associated corporations

(a) JCS — ultimate holding company of the Company

Name of directors	Number of shares of HK\$100.0 each			Approximate % of shares in issue
	Beneficial interests	Interests as discretionary trust beneficiary	Total	
Lu Wing Chi	3,000	12,000 ¹	15,000	32.61
Lincoln Lu	5,500	12,000 ¹	17,500	38.04
Lambert Lu	5,500	12,000 ¹	17,500	38.04

(b) NLI — immediate holding company of the Company

Name of directors	Number of shares of HK\$100.0 each			Approximate % of shares in issue
	Beneficial interests	Interests held by controlled corporation	Total	
Lu Wing Chi	46,938	—	46,938	30.00
Lincoln Lu	5,021	99,480 ²	104,501	66.79
Lambert Lu	5,021	99,480 ²	104,501	66.79

Notes:

- 12,000 shares in JCS deemed to be the interests of Messrs. Lu Wing Chi, Lincoln Lu and Lambert Lu represented the same interests and were, therefore, duplicated among these three directors for the purpose of the SFO. Such shares were held by a discretionary trust, of which all three directors are beneficiaries.
- 99,480 shares in NLI deemed to be the interests of Messrs. Lincoln Lu and Lambert Lu represented the same interests and were, therefore, duplicated between these two directors for the purpose of the SFO. These shares were held by JCS, which is deemed to be a controlled corporation of each of Messrs. Lincoln Lu and Lambert Lu by virtue of the SFO.

Further details of the interests of the directors and chief executive in the share options are stated in the section headed "Share Options" below.

Saved as disclosed above, as at 31st December, 2006, none of the directors and chief executive nor their respective associates (as defined in the Listing Rules) had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

Share Options

Share options are unlisted derivatives physically settled in cash to subscribe for shares in the Company.

Old scheme

The Company operates an Employee Share Option Scheme (the "Old Scheme") adopted by an ordinary resolution on 23rd June, 2000, which complies with the Listing Rules as existed prior to 1st September, 2001. The rules governing share options were revised to the form currently set out in Chapter 17 of the Listing Rules on 1st September, 2001. According to the transitional arrangement set out in the Listing Rules, the Company cannot grant further options under the Old Scheme unless the scheme is amended to comply with the current requirements set out in the Listing Rules. The Company has not granted any share options since 1st September, 2001. At the special general meeting held on 19th August, 2005, the Old Scheme was terminated.

New scheme

The Company adopted a New Employee Share Option Scheme (the "New Scheme") which was in compliance with the new requirements set out in the Listing Rules at the special general meeting held on 19th August, 2005 (the "Approval Date").

A summary of the principal terms of the New Scheme is set out below:—

1. Purpose

- (a) The New Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions which the Participants (as defined in paragraph 2 below) have made or may make to the Group.
- (b) The New Scheme will provide the Participants with an opportunity to have a personal stake in the Company with a view to motivating the Participants to utilise their performance and efficiency for the benefit of the Group and attracting and retaining or otherwise maintaining an on-going relationship with the Participants whose contributions are or will be beneficial to the long term growth of the Group.

2. Participants

The Board may at its discretion grant options to any director (whether executive or independent non-executive director) or full-time employee of any member of the Group.

3. Total number of shares available for issue

(a) 30% limit

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the shares in issue from time to time (the "Scheme Limit").

(b) *10% limit*

In addition to the Scheme Limit, and subject to the following paragraph, 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 Company must not, in aggregate, exceed 10% of the shares in issue as at the Approval Date, i.e. 53,066,578 shares (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the New Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may, from time to time, refresh the Scheme Mandate Limit by obtaining the approval of the shareholders in general meeting. Once refreshed, the total number of securities which may be issued upon exercise of all options to be granted under the New Scheme and all other share option schemes of the Company under the limit, as refreshed, must not exceed 10% of the shares in issue as at the date of approval of the refreshment by the shareholders. Options previously granted under the New Scheme and any other share option schemes, including without limitation any options which are outstanding, cancelled, lapsed or exercised, will not be counted for the purpose of calculating the refreshed Scheme Mandate Limit.

The Company may seek separate approval of the shareholders in general meeting for granting options beyond the Scheme Mandate Limit or the refreshed Scheme Mandate Limit provided that the options in excess of such limit are granted only to the Participants specifically identified before such approval is sought. A circular containing a generic description of the specified Participants who may be granted such options, the number and terms of the options to be granted and the purpose of granting options to the specified Participants with an explanation as to how the terms of the options serve such purpose and other information required under the Listing Rules must be sent to the shareholders.

As at 18th April, 2007, the total number of shares available for issue under the New Scheme was 53,066,578, which represented approximately 8.97% of the issued share capital of the Company on that date.

4. Maximum entitlement of each Participant

Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue as at the date of such new grant. Where any further grant of options to a Participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such Participant (including exercised, lapsed cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates (as defined in the Listing Rules) abstaining from voting.

5. Option period

The period within which the shares must be taken up under an option will be determined by the Board at its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

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6. Amount payable upon acceptance of option

HK\$10 is payable by each Participant to the Company on acceptance of an offer of an option, which will be paid within 28 days from the offer date.

7. Minimum period for which an option must be held before exercise

Unless otherwise determined by the Board at its sole discretion, there is no requirement of a minimum period for which an option must be held before such an option can be exercised under the terms of the New Scheme.

8. Subscription price of shares

The subscription price must be at least the highest of: (a) the closing price of a share as stated in the daily quotations sheet of the Stock Exchange on the date of offer of the grant of option which must be a day on which the Stock Exchange is open for the business of dealing in securities (the "Business Day"), and (b) the average of the closing price of the shares as shown on the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the above date of offer, and (c) the nominal value of a share.

9. Remaining life

The New Scheme commenced on 25th August, 2005 when it became unconditional and shall continue in force until the tenth anniversary of such date.

Options granted

During the year ended 31st December, 2006, the Company did not grant any share option under the New Scheme. All options granted prior to the termination of the Old Scheme will continue to be valid and exercisable in accordance with the provisions of the Old Scheme. No options were cancelled or lapsed during the year under review.

Details of the outstanding share options granted and held by a director as at 31st December, 2006, and those of another director and a participant who exercised their rights to subscribe for shares in the Company during the year pursuant to the Old Scheme are as follows:—

Name of participants	Date of grant	Exercise price per share HK\$	Exercisable period	Number of underlying shares comprised in share options		
				Balance as at 1.1.2006	Exercised during the year (Note)	Balance as at 31.12.2006
Directors						
Lu Wing Chi	4.12.2000	1.44	4.12.2000 — 3.12.2010	12,500,000	(12,500,000)	—
Lu Wing Yuk, Andrew	4.12.2000	1.44	4.12.2000 — 3.12.2010	3,000,000	—	3,000,000
Total				<u>15,500,000</u>	<u>(12,500,000)</u>	<u>3,000,000</u>
Others						
A participant	4.12.2000	1.44	4.12.2000 — 3.12.2010	5,250,000	(5,250,000)	—
Total				<u>5,250,000</u>	<u>(5,250,000)</u>	<u>—</u>

Note: The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$4.165 per share.

Substantial Shareholders' Interests in Securities

So far as is known to any director or the chief executive of the Company, as at 31st December, 2006, corporations or persons (other than a director or chief executive of the Company) who had 5% or more interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO, were as follows:—

Long positions in shares and underlying shares of the Company

Name	Number of shares of HK\$0.1 each		Number of underlying shares (warrants)		Total	% of shares in issue
	Beneficial interests	Interests held by controlled corporation	Beneficial interests	Interests held by controlled corporation		
JCS ²	—	309,625,749	—	51,325,190	360,950,939 ¹	61.90
NLI ³	309,625,749	—	51,325,190	—	360,950,939 ¹	61.90
Pacific Rose Enterprises Limited	31,955,873	—	3,581,257	—	35,537,130	6.09

Notes:

- 309,625,749 shares and warrants carrying 51,325,190 underlying shares held by NLI and deemed to be JCS' interest represented the same interests and were, therefore, duplicated between these two shareholders for the purpose of the SFO. JCS was interested in 63.58% of the issued shares in NLI.
- Messrs. Lu Wing Chi, Lincoln Lu and Lambert Lu, all of whom are directors of the Company, are also directors of JCS.
- Messrs. Lu Wing Chi, Lu Wing Yuk, Andrew, Lincoln Lu and Lambert Lu, all of whom are directors of the Company, are also directors of NLI.

Saved as disclosed above, the directors are not aware of any other corporation or person (other than a director or chief executive) who, as at 31st December, 2006, had any interests or short positions in the shares or underlying shares of the Company recorded in the register required to be kept under Section 336 of the SFO.

Dealings in the Company's Shares and Warrants

During the year ended 31st December, 2006, the Company did not redeem any of its listed shares or warrants. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares or warrants during the year.

Major Suppliers and Major Customers

During the year, the aggregate amount of purchases and sales attributable to the five largest suppliers and customers of the Group accounted for less than 30% in aggregate of the Group's total purchases and sales respectively.

Corporate Governance

Throughout the year ended 31st December, 2006, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except that the roles of the chairman and chief executive officer were not separated and was performed by the same individual.

Directors' Report

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 18 to 24.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules during the year and up to the date of this report.

Charitable Donations

During the year, the Group made charitable donations amounting to HK\$354,000 (2005: HK\$53,000).

Significant Post Balance Sheet Events

Details of the significant post balance sheet events are set out in note 48 to the consolidated financial statements.

Five-Year Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the Financial Highlights on page 2.

Audit Committee

In the presence of representatives of Messrs. Deloitte Touche Tohmatsu ("DTT"), Certified Public Accountants, the Company's external auditor, the audit committee met on 17th April, 2007 and reviewed with the management the results and consolidated financial statements of the Company for the year ended 31st December, 2006.

Auditors

The consolidated financial statements of the Company for the year under review have been audited by DTT, who retire and, being eligible, offer themselves for re-appointment. Approved by the Board upon the Audit Committee's recommendation, a resolution to re-appoint DTT as auditors of the Company will be submitted to the forthcoming annual general meeting for shareholders' approval.

On behalf of the Board

Lu Wing Chi
Chairman and Managing Director

Hong Kong, 18th April, 2007