

The directors of Far East Holdings International Limited (the "Company") present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2006.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 18 to 19 respectively to the consolidated financial statements.

In prior years, the Group was also engaged in the sales and production of commodity concrete operations in the PRC. These operations were discontinued in November 2006. Details are set out in notes 10 and 40 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 24 of the consolidated financial statements.

No Interim dividend was paid during the year and the Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2006.

## INVESTMENT PROPERTIES

Details of movements during the year in investment properties of the Group and the Company are set out in note 15 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in property, plant and equipment of the Group and the Company are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 36 to the consolidated financial statements.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 80 of the consolidated financial statements.

## PROPERTIES

Details of the properties held by the Group at 31st December, 2006 are set out on pages 81 and 82 of the consolidated financial statements.

## RESERVES

The Company's distributable reserve at 31st December, 2006 was HK\$33,929,184 (2005: HK\$21,391,760). Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 28 to the consolidated financial statements.

## MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES

During the year under review, the Company and its subsidiaries have not purchased, sold or redeemed any of the listed securities in the Company.

## DIRECTORS

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

### Executive Directors

Deacon Te Ken Chiu *J.P. (Chairman)*

Mr. Duncan Chiu *(Managing Director and Chief Executive Officer)*

Mr. Dennis Chiu

### Non-executive Directors

Tan Sri Dato' David Chiu

Mr. Daniel Tat Jung Chiu

Mr. Derek Chiu

Mr. Desmond Chiu

Ms. Margaret Chiu

Ms. Min Tang

(appointed on 1st January, 2007)

### Independent Non-executive Directors

Dr. Lee G. Lam

Mr. Ryan Yen Hwung Fong

Mr. Chi Man Ma

Mr. Hing Wah Yim

(resigned on 1st March, 2006)

(appointed on 1st April, 2006)

In accordance with Articles 79 and 80 of the Company's Articles of Association, Mr. Dennis Chiu, Tan Sri Dato' David Chiu, Mr. Daniel Tat Jung Chiu and Ms. Margaret Chiu will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election.

In accordance with the Article 84 of the Company's Articles of Association, Ms. Min Tang who was appointed as non-executive director of the Company, will hold office until the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election.

The term of office for each non-executive director is the period up to his or her annual retirement by rotation in accordance with the provisions of the Company's Articles of Association.

## DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and senior management of the Group are set out on pages 8 to 10 of the consolidated financial statements.

## DIRECTORS' AND SENIOR EXECUTIVES' INTERESTS IN SHARES AND SHARE OPTIONS

At 31st December, 2006, the interests of the Directors and senior executives of the Company and their associates in the shares of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (1) Long positions

#### Ordinary shares of HK\$0.01 each of the Company

Name of director	Number of ordinary shares of the Company held				Total interests	Percentage of issued share capital of the Company
	Personal interests	Family interests	Corporate interests	Other interests		
Deacon Te Ken Chiu, J.P.	10,424,332	2,087,580 <sup>(1)</sup>	1,612,683	2,341,733 <sup>(5)</sup>	16,466,328	15.04%
Tan Sri Dato' David Chiu	1,870,000	-	6,168,800	-	8,038,800	7.34%
Ms. Margaret Chiu	1,100,000	-	-	-	1,100,000	1.01%
Mr. Dennis Chiu	3,520,044	-	2,200,000 <sup>(3)</sup>	1,170,866 <sup>(5)</sup>	6,890,910	6.30%
Mr. Daniel Tat Jung Chiu	2,420,000	-	11,440,044 <sup>(4)</sup>	-	13,860,044	12.66%
Mr. Derek Chiu	44,220	-	-	-	44,220	0.04%
Mr. Desmond Chiu	1,100,000	-	-	-	1,100,000	1.01%
Mr. Duncan Chiu	23,341,658	-	-	7,706,773 <sup>(5)</sup>	31,048,431	28.37%

#### Notes:

- (1) These shares are held by Madam Ching Lan Ju Chiu, wife of Deacon Te Ken Chiu, J.P..
- (2) These shares are held by Rocket High Investments Limited, a company wholly-owned by Tan Sri Dato' David Chiu.
- (3) These shares are held by Cape York Investments Limited ("Cape York"), a company owned by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu equally.
- (4) Of the 11,440,044 shares, 2,200,000 shares are held by Cape York, and the remaining 9,240,044 shares are held by Gorich Holdings Limited, a company wholly-owned by Mr. Daniel Tat Jung Chiu.
- (5) Details of the interests of directors and senior executives of the Company in the underlying shares of equity derivatives in respect of options granted to them are stated in the "Share Options" section as below.

Save as disclosed above, none of directors had registered an interest and 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 for Securities Transactions by Directors of Listed Companies at 31st December, 2006.

## (2) Share options

The Company's share option scheme was adopted pursuant to a resolution passed on 23rd May, 2005 (the "Share Option Scheme") for the purpose of providing incentives and rewards to employees or executive or officers of the Company or any of its subsidiaries (including executive and non-executive directors) and business consultants, agents and legal or financial advisers who will contribute or have contributed to the Company or any of its subsidiaries. Under the Share Option Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Particulars of the Company's share option scheme are set out in note 37 to the consolidated financial statements. The following table discloses movements in the Company's share options during the year:

Name of Grantee	Number of Shares Options				Adjusted Exercise price HK\$	Grant date	Exercisable period (Both days inclusive)
	Outstanding as at 1/1/2006	Granted during the year	Adjustment for Bonus Issue	Outstanding as at 31/12/2006			
Deacon Te Ken Chiu, J.P.	2,128,848	-	212,885	2,341,733	1.153	21/7/2005	21/7/2005-20/7/2015
Mr. Dennis Chiu	1,064,424	-	106,442	1,170,866	1.153	21/7/2005	21/7/2005-20/7/2015
Mr. Duncan Chiu	3,406,158	-	340,615	3,746,773	1.153	21/7/2005	21/7/2005-20/7/2015
	-	1,800,000	180,000	1,980,000	1.2182	21/4/2006	23/5/2006-22/5/2016
	-	1,800,000	180,000	1,980,000	1.2182	21/4/2006	23/5/2007-22/5/2017
Aggregate for directors	6,599,430	3,600,000	1,019,942	11,219,372			
Aggregate for employees	425,770	-	42,578	468,348	1.153	21/7/2005	21/7/2005-20/7/2015
	-	750,000	75,000	825,000	1.2182	21/4/2006	23/5/2006-22/5/2016
	-	750,000	75,000	825,000	1.2182	21/4/2006	23/5/2007-22/5/2017
	<u>7,025,200</u>	<u>5,100,000</u>	<u>1,212,520</u>	<u>13,337,720</u>			

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Save as disclosed under the section headed "Directors' and senior executives' interests in shares and share options", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director 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.

**SUBSTANTIAL SHAREHOLDERS**

At 31st December, 2006 the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain Directors under the section headed "Directors' and senior executives' interests in shares and share options", the following shareholders had notified the Company of any interest, directly or indirectly, in 5% or more of the issued share capital of the Company:

Name of Substantial Shareholder	Number of ordinary shares of the Company held	Percentage of issued share capital of the Company
Gorich Holdings Limited ("Gorich") <sup>(1)</sup>	9,240,044	8.44%
Max Point Holdings Limited ("Max Point") <sup>(2)</sup>	7,764,240	7.09%
Rocket High Investments Limited ("Rocket") <sup>(3)</sup>	6,168,800	5.64%
Virtual Dragon International Limited ("Virtual Dragon") <sup>(4)</sup>	5,611,760	5.13%

Notes:

- (1) Gorich is wholly-owned by Mr. Daniel Tat Jung Chiu. The interests of Mr. Daniel Tat Jung Chiu in the Company is stated under the section headed "Directors' and senior executives' interests in shares and share options" above.
- (2) The entire share capital of Max Point is beneficially owned by Mr. Chan Wai Ki.
- (3) Rocket is wholly-owned by Tan Sri Dato' David Chiu. The interests of Tan Sri Dato' David Chiu in the Company is stated under the section headed "Directors' and senior executives' interests in shares and share options" above.
- (4) These shares are held by Peace View Company Limited ("Peace View"), a wholly-owned subsidiary of Far East Consortium Limited ("FEC"). On 28 March 2001, FEC had entered into a Sale of Shares Agreement with Virtual Dragon to dispose of its entire equity interests in Peace View to Virtual Dragon.
- (5) All interests disclosed above represent long positions in the ordinary shares of the Company.

Save as disclosed above, the Company had not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital at 31st December, 2006.

**CONFIRMATION OF INDEPENDENCE**

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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and considers the independent non-executive Directors to be independent.

**DONATIONS**

During the year, the Group made charitable and other donations amounting to approximately HK\$154,800.

**MAJOR CUSTOMERS AND SUPPLIERS**

Aggregate sales of the Group's five largest and the top largest customers accounted for approximately 46% and 31% of total turnover, respectively.

Aggregate purchases of the Group's five largest and the top largest suppliers accounted for approximately 33% and 9% of total purchases, respectively.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Director owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

**CORPORATE GOVERNANCE**

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate governance report" on pages 18 to 21.

**AUDIT COMMITTEE**

The Company's audit committee comprising Independent Non-executive Directors and Non-executive Director.

The principal duties of the audit committee are reviewing the internal controls and the financial reporting requirements of the Group. The audit committee is satisfied with the Company's internal control procedures and the financial reporting disclosures.

**SUFFICIENCY OF PUBLIC FLOAT**

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

## EMOLUMENT POLICY

Details of the directors' emoluments and of the five highest paid individuals in the Group are set out in notes 7 and 8 to the consolidated financial statements, respectively.

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible participants, details of the scheme is set out in note 37 to the consolidated financial statements.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Directors confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31st December, 2006.

## POST BALANCE SHEET EVENTS

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

## AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

### **Duncan Chiu**

*Managing Director and Chief Executive Officer*

Hong Kong, 20th April, 2007