

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the 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 34.

An interim dividend of HK1.0 cent per share amounting to approximately HK\$3,048,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK5.5 cents per share to the shareholders on the register of members on 31st May, 2007, amounting to approximately HK\$16,674,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 31% of the total turnover of the Group and the largest customer accounted for approximately 19% of the total turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for approximately 44% of the total purchases of the Group and the largest supplier accounted for approximately 25% of the total purchases of the Group.

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

INVESTMENT PROPERTIES

Details of this movement during the year in the investment properties of the Group are set out in note 17 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended HK\$7,398,000 on property, plant and equipment during the year.

Details of this and other movements during the year in the property, plant and equipment and prepaid lease payments of the Group are set out in note 15 and 16 to the financial statements, respectively.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31st 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\$42,405,000 of which HK\$16,674,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$77,723,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive directors

Mr. Poon Siu Chung

(Chairman and Managing Director)

Mr. Leung Ying Wai, Charles

(Deputy Chairman)

Mr. Ip Siu On

Mr. Tsui Yan Lee, Benjamin

Non-executive director

Mr. Tong Wui Tung, Ronald

Independent non-executive directors

Mr. Ng Siu Yu, Larry

Mr. Lam Yat Cheong

Mr. Yip Chi Hung

In accordance with Clause 99(B) of the Company's bye-laws, Mr. Leung Ying Wai, Charles, Mr. Ip Siu On and Mr. Tsui Yan Lee, Benjamin will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

DIRECTOR'S SERVICE CONTRACTS

No director 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).

All non-executive director and independent non-executive directors have been appointed for a term of approximately one year.

They will hold office until the conclusion of the forthcoming annual general meeting of the Company.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31st December, 2006, the interests of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of 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 Issuers ("Model Code"), were as follows:

(A) Long positions in shares of the Company

Director	Capacity	No. of shares held	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner	21,496,000	124,437,630 (a)	41.05
	Interest of spouse and controlled corporation	102,941,630		
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	20.81
Mr. Ip Siu On	Beneficial owner	6,803,600	6,803,600	2.24
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	3,411,000	3,411,000	1.13
Mr. Ng Siu Yu, Larry	Beneficial owner	880,000	880,000	0.29
Mr. Yip Chi Hung	Interest of controlled corporation	300,000	300,000 (c)	0.10

Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 21,496,000 shares of the Company and he was deemed to be interested in 1,184,000 shares and 101,757,630 shares which were held by his spouse, Ms. Lau Kwai Ngor and through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor respectively. Of these shares, 618,200 shares are held in trust for others.
- (b) Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, his spouse, Ms. Tai Yee Foon and his family members.
- (c) Mr. Yip Chi Hung was deemed to be interested in 300,000 shares which were held through First Canton Investment Limited, a company incorporated in the British Virgin Islands and 100% beneficially owned by Mr. Yip.

(B) Long position in shares of associated corporations of Company

Director	Name of associated corporation	Capacity	No. of shares held	Total	% of issued share capital of the associated corporation
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner	200	400 (d)	50
		Interest of spouse	200		
	Sunflower Garland Manufactory Limited	Beneficial owner	60,800	81,600 (e)	51
		Interest of spouse	20,800		
Mr. Leung Ying Wai, Charles	Perfectech International Limited	Interest of spouse	400	400 (f)	50
Mr. Ip Siu On	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18
Mr. Tsui Yan Lee, Benjamin	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18

Notes:

- (d) Mr. Poon Siu Chung was the beneficial owner of 200 non-voting deferred shares ("Perfectech Shares") of HK\$100 each in Perfectech International Limited, a subsidiary of the Company and was deemed to be interested in 200 Perfectech Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (e) Mr. Poon Siu Chung was the beneficial owner of 60,800 non-voting deferred shares ("Sunflower Shares") of HK\$1 each in Sunflower Garland Manufactory Limited, a subsidiary of the Company and was deemed to be interested in 20,800 Sunflower Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (f) Mr. Leung Ying Wai, Charles was deemed to be interested in 400 Perfectech Shares through interests of his spouse, Ms. Tai Yee Foon.

REPORT OF THE DIRECTORS

Details of the interests of the directors, or their associates, in the share options of the Company or any of its associated corporations are set out in the "Share Options" section of this report.

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the directors, nor their associates, had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations as at 31st December, 2006.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 38 to the financial statements.

Details of the movements in the Company's share option during the year are as follows:

	Number of options outstanding 1.1.2006	Number of options granted during the year	Number of exercised options during the year	Number of options outstanding at 31.12.2006	Date granted	Exercise price per share HK\$	Exercise period
Directors							
Ip Siu On	3,000,000	–	–	3,000,000	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
Tsui Yan Lee, Benjamin	3,000,000	–	–	3,000,000	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
Employees	–	9,000,000	–	9,000,000	24th March, 2006	0.540	24th April, 2006 – 31st December, 2014
	<u>6,000,000</u>	<u>9,000,000</u>	<u>–</u>	<u>15,000,000</u>			
Others	1,000,000	–	–	1,000,000	5th June, 2002	0.664	5th July, 2002 – 17th May, 2012
	1,000,000	–	–	1,000,000	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
	<u>2,000,000</u>	<u>–</u>	<u>–</u>	<u>2,000,000</u>			
Grand Total	<u>8,000,000</u>	<u>9,000,000</u>	<u>–</u>	<u>17,000,000</u>			

The closing price of the Company's shares on 5th June, 2002, 2nd February, 2005 and 24th March, 2006, the dates of grant of the options, were HK\$0.64, HK\$0.60 and HK\$0.52 respectively.

According to the Binomial Option Pricing Model, the details of the options granted during the year under the Scheme were as follows:

Date of grant	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate (being the yield of 10-year Exchange Fund Notes)	Expected volatility note (i)	Expiration of the options	Expected ordinary dividend note (iii)
24th March, 2006	9,000,000	HK\$1,323,000	HK\$0.52	4.54%	41.68%	31st December, 2014	5.29%

- (i) The volatility measured at the standard deviation of expected share price returns is based on the daily closing prices over the one year immediately preceding the date of grant.
- (ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares on the Stock Exchange.
- (iii) Expected ordinary dividend is based on 2006 prospective dividend yield of the shares as at 24th March, 2006.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, 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' AND CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) During the year, Perfectech International Limited ("Perfectech"), a wholly-owned subsidiary of the Company, entered into tenancy agreements to rent the following premises from Nice Step Investment Limited, a company controlled by Mr. Leung Ying Wai, Charles, a substantial shareholder and director of the Company:
 - (i) premises at the 1st floor (with gross floor area of approximately 5,070 sq.ft.) of Perfertech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period commencing from 11th July, 2006 and expiring on 19th April, 2008 at a monthly rent of HK\$22,308.
 - (ii) premises at the 2nd floor (with gross floor area of approximately 5,070 sq.ft.) and car parking space No.3 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of two years commencing from 20th April, 2006 at a monthly rent of HK\$24,708.

REPORT OF THE DIRECTORS

- (iii) premises at the 3rd floor (with gross floor area of approximately 5,070 sq.ft.) and car parking space No.4 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of two years commencing from 20th April, 2006 at a monthly rent of HK\$24,708.
- (iv) premises at the 4th floor (with gross floor area of approximately 3,096 sq.ft.), flat roof at the 4th floor (with gross floor area of approximately 1,963 sq.ft.) and car parking space No.5 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of two years commencing from 20th April, 2006 at a monthly rent of HK\$21,911.40.
- (v) premises at the 5th floor (with gross floor area of approximately 3,096 sq.ft.) of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 15th August, 2003 at a monthly rent of HK\$10,836.

During the year, the Group paid rental expenses of approximately HK\$1,144,000 to Nice Step Investment Limited.

- (b) On 2nd February, 2005, Perfectech entered into a tenancy agreement with Mr. Poon Siu Chung, a controlling shareholder and director of the Company, in relation to premises at Nos. 34 and 35 of Xiazha Industrial Street, Jinding Town, Zhuhai, the People's Republic of China, for a monthly rent of HK\$14,000 for a period of three years commencing from 1st January, 2005. The said premises are used by the Group as factories. The total rent payable by the Group for the premises for the full period of the tenancy under the aforesaid tenancy agreement will amount to HK\$504,000. During the year, the Group paid rent to Mr. Poon Siu Chung totalling HK\$168,000.
- (c) During the year, the Group issued guarantees to financial institutions to secure general banking facilities granted to the Group including its subsidiaries which are not wholly-owned by the Group, known as Perfectech Paper Products Company Limited ("Paper"), Perfectech Printing Company Limited ("Printing"), Asia Rich (Far East) Limited ("Asia Rich"), Beyond Growth International Limited ("Beyond Growth"), Dream Creation Limited ("Dream Creation") and Shouji Tooling Factory Limited ("Shouji"). Details of the guarantees and amount utilised as at 31st December, 2006 are as follows:

Subsidiaries connected	In favour of	Guarantee	Amount
		amount	utilised
		HK\$	HK\$
Paper and Printing	The Hong Kong and Shanghai Banking Corporation Limited	90,000,000	—
Asia Rich, Beyond Growth, Dream Creation and Shouji	The Hong Kong and Shanghai Banking Corporation Limited	50,000,000	—
	Hang Seng Bank Limited	40,000,000	—
Beyond Growth, Dream Creation and Shouji	Chong Hing Bank Limited	25,000,000	—

The independent non-executive directors confirm that the transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) in accordance with the terms of the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole and (iii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties.

Each of the above transactions is a connected transaction under the definition of Chapter 14A of the Listing Rules, and the directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Other than as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director or 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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section "Directors' Interests in Shares and Options", as at 31st December, 2006, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the shares capital of the Company as follows: –

Long positions in shares of the Company

Shareholder	Capacity	No. of shares held	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Interest of spouse and controlled corporation	124,437,630 (a)	41.05
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200 (b)	20.81
Allianz Aktiengesellschaft	Interest of controlled corporation	62,034,971 (c)	20.46
Dresdner Bank Aktiengesellschaft	Interest of controlled corporation	62,034,971 (c)	20.46
Veer Palthe Voûte NV	Investment Manager	62,034,971 (c)	20.46

REPORT OF THE DIRECTORS

Notes:

- (a) Under the SFO, Ms. Lau Kwai Ngor was the beneficial owner of 1,184,000 shares and was deemed to be interested in 123,253,630 shares of the Company through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 21,496,000 shares of the Company and he was deemed to be interested in 101,757,630 shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor. Of these shares, 618,200 shares are held in trust for others.
- (b) Under the SFO, Ms. Tai Yee Foon was deemed to be interested in 63,097,200 shares of the Company through interests of her spouse, Mr. Leung Ying Wai, Charles. Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, Ms. Tai Yee Foon and his family members.
- (c) Under the SFO, Allianz Aktiengesellschaft and Dresdner Bank Aktiengesellschaft were deemed to be interested in the 62,034,971 shares of the Company held by Veer Palthe Voûte NV.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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 Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

CORPORATE GOVERNANCE

The Company has adopted throughout the year ended 31st December, 2006 the Code of Corporate Governance Practices ("Code Provision") set out in the Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report in page 13 to 21 of this annual report.

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

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
January 2006	350,000	0.540	0.530	188,552
February 2006	430,000	0.530	0.510	226,891
March 2006	1,592,000	0.550	0.480	805,985
May 2006	624,000	0.530	0.510	323,684
June 2006	910,000	0.520	0.510	472,414
July 2006	1,060,000	0.550	0.530	579,835
August 2006	764,000	0.550	0.550	423,634
November 2006	1,650,000	0.700	0.650	1,129,685
	<u>7,380,000</u>			<u>4,150,680</u>

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set by the Board and reviewed 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 Board and reviewed 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 employees, and details of the scheme are set out in note 38 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.

SUFFICIENCY OF PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 40 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu had been the auditors of the Company for the past three years until its resignation with effect from 8th December, 2006, and since then HLM & Co. has succeeded as the Company's auditors.

The reason for change of auditor is that the Group and Deloitte Touche Tohmatsu could not reach an agreement on the audit fees for the financial year ended 31st December, 2006. The change of auditors could help to maintain the audit fees at a reasonable level. This is in line with the Company's policy to control and reduce the Company's expenses.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. HLM & Co. as auditors of the Company.

On behalf of the Board

Poon Siu Chung

Chairman & Managing Director

Hong Kong, 23rd April, 2007