

## Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group 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, jointly-controlled entities and principal associates are set out in notes 18 to 20 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 21 to 95.

An interim dividend of HK3 cents per ordinary share was paid on 13 October 2006. The directors recommend the payment of a final dividend of HK5 cents per ordinary share in respect of the year to shareholders on the register of members on 16 May 2007. This recommendation has been incorporated in the financial statements as an allocation of contributed surplus within the equity section of the balance sheet.

### SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years is set out on page 97. This 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 Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 96.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 35 and 36 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, 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.

## Report of the Directors (Cont'd)

**RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 37(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

**DISTRIBUTABLE RESERVES**

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$518,877,000, of which approximately HK\$25,650,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of approximately HK\$211,119,000, may be distributed in the form of fully paid bonus shares.

**CHARITABLE CONTRIBUTIONS**

During the year, the Group made charitable contributions totaling approximately HK\$399,000.

**MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 40% of the total sales for the year and sales to the largest customer included therein amounted to approximately 24%. Purchases from the Group's five largest suppliers accounted for approximately 39% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 20%.

None of the directors of the Company 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 or five largest suppliers.

**DIRECTORS**

The directors of the Company during the year were:

*Executive directors:*

Luk King Tin

Cheng Cheung

Luk Yan

Luk Fung (appointed on 12 January 2006)

Fan Chiu Tat, Martin

*Independent non-executive directors:*

Liu Li Yuan

Liang Fang

Tam Kan Wing

## Report of the Directors (Cont'd)

### DIRECTORS (Cont'd)

In accordance with clause 87 of the Company's bye-laws, Mr. Luk Yan and Mr. Fan Chiu Tat, Martin will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors Mr. Liu Li Yuan, Mr. Liang Fang and Mr. Tam Kan Wing, are appointed for a period of one year and, being eligible, will offer themselves for re-election at the forth coming general meeting.

The Company has received annual confirmations of independence from Mr. Liu Li Yuan, Mr. Liang Fang and Mr. Tam Kan Wing and still considers them to be independent.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Mr. Luk King Tin, aged 69, is the Chairman of the board and the Chief Executive Officer of the Company. Mr. Luk is also the founder of the Group and has been with the Group for over 30 years. He is responsible for formulating the Group's strategies and policies.

Madam Cheng Cheung, aged 66, is an executive director of the Company. Madam Cheng is the wife of Mr. Luk King Tin and has been with the Group for over 30 years. She is mainly responsible for the finance, human resources and administrative functions of the Group.

Mr. Luk Yan, aged 42, is an executive director of the Company. Mr. Luk is a son of Mr. Luk King Tin and Madam Cheng Cheung. He is now responsible for the Group's property investment and management in Vietnam. He has been with the Group for 17 years.

Mr. Luk Fung, aged 38, is an executive director of the Company. Mr. Luk is a son of Mr. Luk King Tin and Madam Cheng Cheung. He has years of experience in the financial services industry prior to joining the Group. Mr. Luk graduated from Simon Fraser University in Canada. He is responsible for the development of the traditional Chinese medicine business of the Group. He has been with the Group for 7 years.

Mr. Fan Chiu Tat, Martin, aged 40, is an executive director and the company secretary of the Company. He graduated from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Fan is also the financial controller of the Company. He has been with the Group for 17 years.

Mr. Liu Li Yuan, aged 56, is an independent non-executive director of the Company. Mr. Liu is a graduate with a diploma from the Faculty of Law of the University of Beijing. He is currently a managing director of a property investment and management company in Mainland China.

Mr. Liang Fang, aged 55, is an independent non-executive director of the Company. Mr. Liang is the holder of an MBA degree from the Massachusetts Institute of Technology of the United States of America. He has been working in the IT business for a number of years. Mr. Liang is currently the president of Asia of Freeborders Limited.

Mr. Tam Kan Wing, aged 41, is an independent non-executive director of the Company. Mr. Tam is the sole proprietor of a CPA firm in Hong Kong. He is the holder of a bachelor degree of Arts in Accountancy from the City University of Hong Kong. He is also a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has more than 18 years of experience in the auditing, taxation, finance and accounting fields.

## Report of the Directors (Cont'd)

**DIRECTORS' SERVICE CONTRACTS**

No director proposed for re-election at the forthcoming annual general meeting 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' REMUNERATION**

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

**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 or any of its subsidiaries was a party during the year.

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 31 December 2006, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

*Long positions in ordinary shares of the Company:*

Name of director	Notes	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Luk King Tin	(a)	190,479,286	–	57,226,071	247,705,357	49.55
Cheng Cheung	(b)	18,012,800	–	36,912,027	54,924,827	10.98
Luk Yan	(c)	3,370,800	174,000	–	3,544,800	0.71
Luk Fung		6,529,600	–	–	6,529,600	1.31
Fan Chiu Tat, Martin		1,500,000	–	–	1,500,000	0.30
		219,892,486	174,000	94,138,098	314,204,584	62.85

## Report of the Directors (Cont'd)

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Cont'd)**

Name of director	Note	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Luk King Tin and Luk Fung	(d)	Vigconic International (Holdings) Limited (formerly known as Heritage Ventures International Limited) ("VI")	Company's subsidiary	2,299,908	Through controlled corporation	25

## Notes:

- (a) Mr. Luk King Tin had a beneficial interest in KT (Holdings) Limited, which held 57,226,071 shares of the Company at the balance sheet date.
- (b) Madam Cheng Cheung had a beneficial interest in CC (Holdings) Limited, which held 36,912,027 shares of the Company at the balance sheet date.
- (c) Mr. Luk Yan had a family interest, which held 174,000 shares of the Company at the balance sheet date.
- (d) Mr. Luk King Tin and Mr. Luk Fung had a beneficial interest in Vigconic Biotechnology Company Limited, which held 2,299,908 shares of US\$1 each of VI at the balance sheet date.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2006, none of the directors had registered an interest or short position in the shares and underlying shares 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.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES**

At no time during the year 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 or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## Report of the Directors (Cont'd)

**SHARE OPTION SCHEME**

The directors have estimated the values of the share options granted during the year, calculated using the Black-Scholes option pricing model as at the date of grant of the options:

<b>Grantee</b>	<b>Number of options granted during the year</b>	<b>Theoretical value of share options</b> HK\$
Luk King Tin	3,500,000	470,000
Cheng Cheung	3,000,000	404,000
Luk Yan	3,000,000	404,000
Luk Fung	2,000,000	269,000
Fan Chiu Tat, Martin	3,000,000	404,000
Other employees (in aggregate)	10,950,000	2,002,000
	25,450,000	3,953,000

The Black-Scholes option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options are set out in note 36 to the financial statements. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the Black-Scholes option pricing model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

## Report of the Directors (Cont'd)

**SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 31 December 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long positions:*

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
KT (Holdings) Limited	Directly beneficially owned	57,226,071	11.45
CC (Holdings) Limited	Directly beneficially owned	36,912,027	7.38

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

**SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

**AUDITORS**

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

ON BEHALF OF THE BOARD

Luk King Tin

*Chairman*

Hong Kong

16 April 2007