

# Report of the Directors

The Directors hereby present the annual report together with 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. The principal activities and other particulars of the subsidiaries are set out in note 43 on the financial statements.

The analysis of the principal activities and geographical locations of operations of the Company and its subsidiaries during the year are set out in note 16 on the financial statements.

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2006 and the state of the Group's affairs as at that date are set out in the financial statements on pages 34 to 115.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2006.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years are set out on page 116.

## 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	
	Sales	Purchases
The largest customer	70.7	Nil
Five largest customers in aggregate	98.2	Nil
The largest supplier	Nil	53.7
Five largest suppliers in aggregate	Nil	90.8

# Report of the Directors

## **MAJOR CUSTOMERS AND SUPPLIERS** *(Continued)*

None of the Directors or their respective associates (as defined in the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or shareholders who own more than 5% of the issued share capital of the Company had any interests in any of these major customers and suppliers.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2006 are set out in note 18 on the financial statements.

## **BANK LOANS AND OTHER BORROWINGS**

Particulars of bank loans and other borrowings of the Group as at 31 December 2006 are set out in notes 30 and 31 on the financial statements.

## **SHARE CAPITAL**

Details of movements in the share capital of the Company during the year are set out in note 35 on the financial statements. Shares were issued during the year to broaden the capital base of the Company.

## **SHARE PREMIUM AND RESERVES**

Details of movements in the reserves of the Group are set out in the consolidated statement of changes in equity.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2006, the Company has no reserve available for cash distribution (2005: Nil) as computed in accordance with the Bermuda Companies Act 1981 (as amended). In addition, the Company's share premium account of HK\$268,970,000 (2005: HK\$217,055,000) as at 31 December 2006 may be distributed in the form of fully paid bonus shares.

# Report of the Directors

## DIRECTORS

The Directors during the financial year and to the date of this report were:

### Executive Directors

Mr. Sze Wai, Marco, *Chairman*

Mr. Chu Chi Shing, *Chief Executive Officer*

Mr. Robert Kenneth Gaunt

(appointed on 18 December 2006)

Mr. Robertus Martinus Andreas Broers

(appointed on 18 December 2006)

Mr. Song Jing Sheng

Mr. Tan Shu Jiang

(appointed on 29 January 2007)

Mr. Gu Peijian

(resigned on 29 January 2007)

### Non-executive Director

Mr. Zee Zin Yee

(appointed on 29 January 2007)

### Independent Non-executive Directors

Mr. Wong Po Yan

Mr. Mao Zhenhua

Mr. Chong Yiu Kan, Sherman

Independent Non-executive Directors are not appointed for a specific term. All the Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

In accordance with bye-laws 111(A) and (B), Mr. Sze Wai, Marco and Mr. Mao Zhenhua will retire by rotation at the forthcoming annual general meeting and being eligible, offers themselves for re-election.

In addition, pursuant to bye-law 115, Mr. Robert Kenneth Gaunt, Mr. Robertus Martinus Andreas Broers, Mr. Tan Shu Jiang and Mr. Zee Zin Yee will hold office until the forthcoming annual general meeting and being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

# Report of the Directors

## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors and chief executive of the Company in the share or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were 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 which they were taken or deemed to have under such provision of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name	Name of company	Capacity	Number and class of securities <i>(note 1)</i>
Sze Wai, Marco	The Company	Interest of controlled corporation <i>(note 2)</i>	264,869,906 ordinary shares (L)
	The Company	Beneficial owner	4,500,000 ordinary shares (L) <i>(note 3)</i>
Chu Chi Shing	The Company	Beneficial owner	4,500,000 ordinary shares (L) <i>(note 3)</i>
Song Jing Sheng	The Company	Beneficial owner	43,800,000 ordinary shares (L) <i>(note 4)</i>
	The Company	Beneficial owner	2,000,000 ordinary shares (L) <i>(note 3)</i>

# Report of the Directors

## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Name	Name of company	Capacity	Number and class of securities <i>(note 1)</i>
Robert Kenneth Gaunt	The Company	Interest of controlled corporation <i>(note 5)</i>	1,700,000 ordinary shares (L)
Wong Po Yan	The Company	Beneficial owner	1,000,000 ordinary shares (L) <i>(note 3)</i>
Mao Zhenhua	The Company	Beneficial owner	1,000,000 ordinary shares (L) <i>(note 3)</i>
Chong Yiu Kan, Sherman	The Company	Beneficial owner	1,000,000 ordinary shares (L) <i>(note 3)</i>

### Notes:

1. The letter "L" represents the Director's interests in the Shares and underlying shares of the Company.
2. These shares were held by Leading Value Industrial Limited, a company wholly owned by Sze Wai, Marco.
3. These shares were the shares which would be allotted and issued upon exercise in full of the options granted to such Director under the share option schemes of the Company.
4. Included in these shares were (i) 37,800,000 issued shares and (ii) 6,000,000 shares which would fall to be allotted and issued pursuant to the exercise of the subscription rights attaching to the unlisted warrants issued to him by the Company.
5. These shares were held by Blazzed Pty Ltd., a company wholly owned by Robert Kenneth Gaunt.

# Report of the Directors

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(Continued)*

Save as disclosed above, as at 31 December 2006, none of the Directors and the chief executive of the Company had any interest and short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of the SFO) which were 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 which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## **SHARE OPTION SCHEME**

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, non-executive Directors, any suppliers and customers of the Company or any of its subsidiaries or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options 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 shall not be lower than the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the Hong Kong Stock Exchange on the date of offer of the options, which must be a trading day, and (iii) 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 operative share option schemes of the Group may not in aggregate exceed 105,778,000, being 10% of the shares in issue of the Company as at 30 June 2006, the date of which the resolution is passed pursuant to the share option scheme.

# Report of the Directors

## SHARE OPTION SCHEME *(Continued)*

The unexercised outstanding share options as at 31 December 2006 are as follows:

				Number of options			Closing price	
				Outstanding	Granted	Exercised/ lapsed	Outstanding	per share
				at	during	during	at	immediately
				1.1.2006	the year	the year	31.12.2006	before
	Date granted	Period during which options exercisable	Exercise price (HK\$)					the date of grant (HK\$)
Old Scheme								
Directors								
Mr. CHU Chi Shing	16.6.1999	10 years	1.08	2,100,000	–	–	2,100,000	1.99
	28.12.2000	10 years	1.32	200,000	–	–	200,000	2.70
	14.5.2001	10 years	0.58	200,000	–	–	200,000	0.86
Mr. SZE Wai, Marco	14.5.2001	10 years	0.58	3,500,000	–	–	3,500,000	0.86
Former Director								
Mr. CHIU Chi Shun, Clarence	14.5.2001	10 years	0.58	3,500,000	–	–	3,500,000	0.86
Employees								
	16.6.1999	10 years	1.08	2,881,000	–	–	2,881,000	1.99
	20.12.1999	10 years	1.13	100,000	–	–	100,000	1.67
	28.12.2000	10 years	1.32	650,000	–	–	650,000	2.70
	3.1.2000	10 years	1.44	560,000	–	–	560,000	2.25
	28.2.2000	10 years	2.06	40,000	–	–	40,000	4.025
	21.6.2000	10 years	1.14	200,000	–	–	200,000	1.39
	14.5.2001	10 years	0.58	1,750,000	–	–	1,750,000	0.86
				15,681,000	–	–	15,681,000	

# Report of the Directors

## SHARE OPTION SCHEME (Continued)

	Date granted	Period during which options exercisable	Exercise price (HK\$)	Number of options			Closing price per share immediately before the date of grant (HK\$)	
				Outstanding at 1.1.2006	Granted during the year	Exercised/ lapsed during the year		
								Outstanding at 31.12.2006
New Scheme								
Directors								
Mr. SZE Wai, Marco	31.10.2006	10 years	0.250	–	1,000,000	–	1,000,000	0.245
Mr. CHU Chi Shing	31.10.2006	10 years	0.250	–	2,000,000	–	2,000,000	0.245
Mr. SONG Jing Sheng	31.10.2006	10 years	0.250	–	2,000,000	–	2,000,000	0.245
Mr. MAO Zhenhua	31.10.2006	10 years	0.250	–	1,000,000	–	1,000,000	0.245
Mr. WONG Po Yan	31.10.2006	10 years	0.250	–	1,000,000	–	1,000,000	0.245
Mr. CHONG Yiu Kan	31.10.2006	10 years	0.250	–	1,000,000	–	1,000,000	0.245
Former Director								
Mr. GU Peijian	31.10.2006	10 years	0.250	–	1,000,000	–	1,000,000	0.245
Employees and Consultants								
Employees	20.03.2006	10 years	0.122	–	37,060,000	(500,000)	36,560,000	0.130
	04.10.2006	10 years	0.213	–	3,000,000	–	3,000,000	0.211
Consultants	20.03.2006	10 years	0.122	–	7,000,000	–	7,000,000	0.130
	04.10.2006	10 years	0.213	–	8,000,000	–	8,000,000	0.211
				–	64,060,000	(500,000)	63,560,000	
				15,681,000	64,060,000	(500,000)	79,241,000	



# Report of the Directors

## SHARE OPTION SCHEME *(Continued)*

The share options are exercisable for a period of ten years commencing from the date of grant and subject to the vesting provisions are as follows:

Date granted	Vesting period	Percentage of options vested
16.06.1999	16.06.1999-01.10.1999	Nil
	02.10.1999-01.01.2000	10%
	02.01.2000-01.01.2001	30%
	02.01.2001-01.01.2002	60%
	02.01.2002-01.07.2002	90%
	02.07.2002-05.07.2009	100%
20.12.1999, 03.01.2000, 28.02.2000 and 21.07.2000	Date of grant-01.01.2001	Nil
	02.01.2001-01.01.2002	30%
	02.01.2002-01.01.2003	60%
	02.01.2003-10 years from the date of grant	100%
28.12.1999	28.12.1999-31.01.2001	Nil
	01.02.2001-27.12.2009	100%
14.05.2001	14.05.2001-30.09.2001	Nil
	01.10.2001-01.01.2002	40%
	02.01.2002-01.01.2003	70%
	02.01.2003-13.05.2011	100%
20.3.2006	21.03.2006-20.03.2016	100%
04.10.2006	04.10.2006-03.04.2007	Nil
	04.04.2007-03.10.2007	50%
	04.10.2007-03.10.2016	100%
31.10.2006	31.10.2006-30.04.2007	Nil
	01.05.2007-31.10.2007	50%
	01.11.2007-30.10.2016	100%

# Report of the Directors

## SHARE OPTION SCHEME *(Continued)*

The weighted average share price at the exercise date of the share options during the year was HK\$0.21. The options outstanding at the end of the year have a weighted average remaining contractual life of 8.27 years (2005: 4.67 years) and the exercise prices range from HK\$0.122 to HK\$2.06 (2005: HK\$0.58 to HK\$2.06).

The fair value of options granted during the year determined at the grant date using the binomial option pricing model was approximately HK\$4,533,000. The significant inputs into the model were as follows:

	20 March 2006	4 October 2006	31 October 2006
Option value	HK\$0.040	HK\$0.125	HK\$0.155
Total fair value	HK\$1,762,400	HK\$1,375,000	HK\$1,395,000
Share price at date of grant	HK\$0.12	HK\$0.21	HK\$0.25
Exercisable price	HK\$0.122	HK\$0.213	HK\$0.25
Expected volatility	83%	84%	84%
Risk-free interest rate	4.390%	3.973%	3.867%
Suboptimal exercise factor	1.5	2.1	2.1
Dividend yield	0%	0%	0%

The expected volatility was determined by calculating the historical volatility of the Company's share price from the date of listing to grant dates. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The total share-based compensation costs recognised during the year amounted to HK\$4,533,000 (2005: Nil).

# Report of the Directors

## SHARE OPTION SCHEME *(Continued)*

The weighted average value per option granted in 2002 estimated at the date of grant using the Black-Scholes pricing model was HK\$0.67. Those share options are not recognised in the financial statements until they are exercised. The weighted average assumptions used are as follows:

	2002
Risk-free interest rate	3.97%
Expected life (in years)	10
Volatility	0.08
Expected dividend per share	–

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Apart from the foregoing, at no time during the year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Company's Directors or chief executive 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.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 December 2006, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares (Note 1)	Capacity	Approximate percentage of interest
Leading Value Industrial Limited (note 2)	264,869,906 (L)	Beneficial owner	19.36
Customers Asia Limited	450,000,000 (L)	Beneficial owner (note 3)	32.90
Customers Limited	450,000,000 (L)	Interest of controlled corporation (note 3)	32.90
FCP Brencorp Limited	450,000,000 (L)	Interest of controlled corporation (note 3)	32.90
FCP Direct Investments Limited	450,000,000 (L)	Interest of controlled corporation (notes 3 and 4)	32.90
First Capital Partners Offshore Limited	450,000,000 (L)	Interest of controlled corporation (notes 3 and 4)	32.90
Andrew Wyles Waters	450,000,000 (L)	Interest of controlled corporation (notes 3 and 4)	32.90
Brencorp No. 12 Pty Ltd	450,000,000 (L)	Interest of controlled corporation (notes 3 and 5)	32.90

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO *(Continued)*

Name of shareholder	Number of ordinary shares <i>(Note 1)</i>	Capacity	Approximate percentage of interest
Brencorp Holdings Pty Ltd	450,000,000 (L)	Interest of controlled corporation <i>(notes 3 and 5)</i>	32.90
Brencorp Pty Ltd	450,000,000 (L)	Interest of controlled corporation <i>(notes 3 and 5)</i>	32.90
Peter Darnian Scanlon	450,000,000 (L)	Interest of controlled corporation <i>(notes 3 and 5)</i>	32.90
Wen Jian Zhu	100,000,000 (L)	Beneficial owner	7.31

### Notes:

1. The letter "L" represents the entity's interests in the Shares.
2. Leading Value Industrial Limited is a company wholly owned by Sze Wai, Marco, who is an executive Director.
3. Customers Asia Limited is owned as to 50% by Customers Limited and FCP Brencorp Limited each. Customers Limited is a company whose shares are listed on the Australian Stock Exchange. FCP Brencorp Limited is owned as to 50% each by Brencorp No.12 Pty Ltd and FCP Direct Investments Limited.
4. FCP Direct Investments Limited is wholly owned by First Capital Partners Offshore Limited, a company wholly owned by Andrew Wyles Waters.
5. Brencorp No.12 Pty Ltd is wholly owned by Brencorp Holdings Pty Ltd, a company wholly owned by Brencorp Pty Ltd which is in turn owned as to 33.33% by Peter Darnian Scanlon.

Save as disclosed above, as at 31 December 2006, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

# Report of the Directors

## **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.

## **COMPETING BUSINESS INTERESTS OF DIRECTORS**

None of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **RETIREMENT SCHEME**

The Company and its Hong Kong subsidiaries operate Mandatory Provident Fund Schemes (the "MPF schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF schemes, the employers and employees are each required to make contributions to the MPF schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the MPF schemes vest immediately.

The retirement benefits costs under the MPF schemes charged to the income statement amounted to HK\$139,000 (2005: HK\$230,000) during the year.

The subsidiaries of the Group in the PRC other than Hong Kong participate in pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 14% to 25% (2005: 14% to 25%) of the standard wages determined by the relevant authorities in the PRC.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant PRC scheme administrators and the Group has no further obligations beyond the annual contributions.

# Report of the Directors

## **RETIREMENT SCHEME** *(Continued)*

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to HK\$1,226,000 (2005: HK\$987,000) during the year.

The Group does not operate any other scheme for retirement benefits provided to the Group's employees.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance to which the Company or its holding company or its subsidiaries was a party, subsisted at the end of the year or at any time during the year in which a director of the Company had a material interest.

## **CONNECTED TRANSACTIONS**

During the year ended 31 December 2006, there were no transactions which are required to be disclosed in accordance with announcement and reporting requirements under the Listing Rules.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasis a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules ("Code on CG Practices") throughout the year ended 31 December 2006. Details of the Code adopted by the Company is set out in the section of Corporate Governance Report.

## **AUDIT COMMITTEE**

The Company has established audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Wong Po Yan, Mr. Mao Zhenhua and Mr. Chong Yiu Kan, Sherman. Mr. Chong Yiu Kan, Sherman is the Chairman of the audit committee. The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the annual report for the year ended 31 December 2006 with the Directors.

# Report of the Directors

## INDEPENDENCE 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 Listing Rules and the Board still considers each of the independent non-executive Directors to be independent.

## AUDITORS

The financial statements have been audited by RSM Nelson Wheeler, who will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board of Directors of  
**FinTronics Holdings Company Limited**

**Sze Wai, Marco**  
*Chairman*

Hong Kong, 16 April 2007