

# Directors' Report

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

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 33 to the financial statements.

## RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 32 of the annual report.

The directors do not recommend any payment of dividend for the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 76 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 22 to the accompanying financial statements.

During the year, the Company issued and allotted 321,000,000 ordinary shares of HK\$0.01 each by way of Rights Issue, in proportion of three rights shares for every two existing Company shares held ("Rights Share"), at a subscription price of HK\$0.1 per Rights Share to the existing shareholders.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.





## RESERVES

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 35 to the accompanying financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2006, the Company's share premium and contributed surplus of approximately HK\$68,551,000 and HK\$71,463,000 respectively (subject to the Cayman Companies Law and the articles of association of the Company) and accumulated losses of approximately HK\$6,495,000 which will lead to a distributable reserves of HK\$133,519,000 in aggregate were available for distribution to the Company's shareholders.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## DIRECTORS

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

*Executive directors:*

But Ching Pui (*Honorary Chairman*)

But Ka Wai (*Chairman*)

But Chai Tong (*Vice Chairman*)

Chu Kin Wah

(*resigned on 30 June, 2006*)

*Non-executive directors:*

Leung Wai Ling

Ngai Chun Kong, Stephen

*Independent non-executive directors:*

Cheung Yu Yan, Tommy

Ip Shing Tong, Francis

Ku Siu Fung, Stephen

In accordance with Article 108 of the Company's Articles of Association, Messrs. But Ching Pui, Leung Wai Ling and Ip Shing Tong, Francis retire by rotation and Mr. But Ching Pui, Leung Wai Ling and Ip Shing Tong, Francis, being eligible, shall offer himself for re-election at the forthcoming annual general meeting.

No directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURE

At 31 December 2006, the interests of the directors and their associates in the shares and underlying shares and debenture of the Company and its associated corporation 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 (the "Model Code"), were as follows:

### Long positions

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

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
But Ka Wai	Held by controlled corporation (note 1)	151,250,000	28.27%
But Chai Tong	Held by controlled corporation (note 2)	142,500,000	26.64%
		<b>293,750,000</b>	<b>54.91%</b>

Notes:

- (1) These shares were held by Able Success Group Limited ("Able Success") which is wholly-owned by Mr. But Ka Wai.
- (2) These shares were held by National Chain International Limited ("National Chain") which is wholly-owned by Mr. But Chai Tong.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2006.





## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 23 to the financial statements.

The following table discloses movements in the Company's share options during the year under review:

Name	Date of grant	Exercise price per share prior to Rights Issue HK cents	Exercise price adjusted for the effect of Rights Issue (Note) HK cents	Exercisable period	Number of shares of the Company to be issued upon exercise of the share options		
					Outstanding at 1.1.2006	Exercised during the year	Outstanding at 31.12.2006
Category I: Employees							
Employees	14.12.2004	31.6	23.8	14.12.2004 to 13.12.2007	10,000,000	-	10,000,000
Category II: Others							
Consultants	14.12.2004	31.6	23.8	14.12.2004 to 13.12.2007	2,000,000	-	2,000,000
<b>Total</b>					<b>12,000,000</b>	<b>-</b>	<b>12,000,000</b>

Note: The exercise price per share brought forward from last year has been adjusted to reflect the effect of the Rights Issue during the year ended 31 December 2006.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Options" 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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in the section headed "Connected Transactions" below, 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 31 December 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following Shareholders had notified the Company of relevant interests in the issued share capital of the Company.

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

	Capacity		Percentage of the issued share capital of the Company
	Family interests	Corporate interests	
Substantial shareholders:			
Able Success (note 1)	–	151,250,000	28.27%
National Chain (note 2)	–	142,500,000	26.64%
Ms. Chan Yuk Ha (note 3)	151,250,000	–	28.27%
Ms. Chang Tei Wah, Teresa (note 4)	142,500,000	–	26.64%

All interest stated above represent long positions.

Note:

- (1) Mr. But Ka Wai is deemed to be interested in these shares through his wholly-owned interest in the issued share capital of Able Success.
- (2) Mr. But Chai Tong is deemed to be interested in these shares through his wholly-owned interest in the issued share capital of National Chain.
- (3) Ms. Chan Yuk Ha, the spouse of Mr. But Ka Wai, is deemed to be interested in 151,250,000 ordinary shares of the Company.
- (4) Ms. Chang Tei Wah, Teresa, the spouse of Mr. But Chai Tong, is deemed to be interested in 142,500,000 ordinary shares of the Company.



Saved as disclosed above, as at 31 December 2006, the Company had not been notified by any persons (other than directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### CONNECTED TRANSACTIONS

Details of discloseable connected transactions for the year are set out in note 32 to the financial statements. In the opinion of the independent non-executive directors of the Company, the transactions were carried out on normal commercial terms, in the ordinary and usual course of business of the Group, on terms that are fair and reasonable so far as the shareholders of the Company are concerned and within the relevant cap amounts as agreed by the Stock Exchange.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 47% of the total sales of the Group and the largest customer accounted for approximately 16% of the total sales of the Group.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 24% of the total purchases of the Group and the largest supplier accounted for approximately 12% 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, which to the knowledge of the directors owns more than 5% of the Company's issued share capital, have an interest in any of the five largest customers and suppliers of the Group.

### SUFFICIENCY OF PUBLIC FLOAT

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

### MANAGEMENT CONTRACTS

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



## EXPOSURE TO BORROWERS AND OTHER SPECIFIC CIRCUMSTANCES THAT MAY REQUIRE DISCLOSURE

The Company has entered into a loan agreement dated 28 June 2005 which requires the controlling shareholders of the Company to retain their control over the Company throughout the term of the loan agreement, the total amount of the loan involved is HK\$31 million.

## AUDITORS

Messrs. Deloitte Touche Tohmatsu and HLB Hodgson Impey Cheng acted as auditors of the Company for the years ended 31 December 2004 and 2005 respectively. Subsequent to HLB Hodgson Impey Cheng's resignation in 2006, Messrs. HLM & Co. were appointed auditors of the Company.

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

**But Ka Wai**

*Chairman*

Hong Kong, 24 April 2007

