

Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 21 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 14 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 36.

The Directors recommend payment of final dividend of HK\$0.03 per ordinary (2005: HK\$0.02 per ordinary share) for the year ended 31 December 2006.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 35 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 15 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out in page 104.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 34 to the accounts.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2006 are set out in note 35 to the accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and there are no restrictions against such rights under the laws in the Cayman Islands.

FIVE YEAR FINANCIAL SUMMARY

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 102 to 103.

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PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company did not repurchase its own shares.

BANK LOANS, OVERDRAFTS AND OBLIGATIONS UNDER FINANCE LEASES

The Group's bank loans, overdrafts and obligations under finance leases as at 31 December 2006 are repayable over the following periods:

	Bank loans and overdrafts	Obligations under finance leases	Total
	HK\$'000	HK\$'000	HK\$'000
Within one year	60,000	39	60,039
In the second year	140,000	73	140,073
	<u>200,000</u>	<u>112</u>	<u>200,112</u>

SHARE OPTIONS

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 (the "Old Scheme") was terminated and another share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all share options granted prior to such termination continue to be valid and exercisable in accordance therewith. As at 31 December 2006, there were 101,937,000 share options granted which remained outstanding under the New Scheme. Details of the New Scheme are as follows:

(a) Purpose

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

(b) Eligible participants

Eligible participants of the New Scheme include the Company's Directors, including the Non-executive Directors and Independent Non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any minority shareholders of the Company's subsidiaries and any other person or entity determined by the Directors as having contributed or may contribute to the development and growth of the Group.

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(c) Maximum number of issuable share options

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2006, the number of shares issuable pursuant to the grant of further options under the New Scheme was 48, which was governed by the latest 10% general limit refreshed and approved by the shareholders in a general meeting.

(d) Maximum entitlement of each eligible participant

The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant under the New Scheme in any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, Chief Executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the Independent Non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting.

(e) Exercisable period

The exercisable period of the share options granted is determined by the Directors, and commences after a certain vesting period, if any, and ends on a date which is not later than 10 years from the date of the offer. The share options which are granted and remain unexercised immediately prior to the end of the expiry date of the New Scheme shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the New Scheme.

(f) Payment on acceptance of option

The offer of a grant of share options shall be deemed to be accepted when the acceptance letter is duly signed by the grantee and the nominal consideration for the grant of HK\$1 is received by the Company within 28 days from the date of the offer.

(g) Basis of determining the exercise price

The exercise price of the share option is determined by the Directors, but not less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

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(h) Remaining life of the scheme

The New Scheme became effective on 20 December 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

As at 31 December 2006, there was no outstanding share options which have been granted under the Old Scheme.

During the year, 16,758,000 share options were expired under the New Scheme.

Details of the share options outstanding as at 31 December 2006 which have been granted under the New Scheme are as follows:

Participant	Date of grant	Exercise price HK\$	1 January 2006	Number of share options			31 December 2006	Company's share price ⁽³⁾	
				Granted during the period	Exercise during the period	Expired during the period		At date of grant HK\$	At date of exercise HK\$
Executive Directors									
Wong Ying Yin	13 June 2005 ⁽¹⁾	0.80	300,000	–	(300,000)	–	–	0.80	1.08
Wong Ying Yin	20 June 2006 ⁽²⁾	0.89	–	350,000	–	–	350,000	0.89	N/A
Bang Young-bae	20 June 2006 ⁽²⁾	0.89	–	300,000	–	–	300,000	0.89	N/A
			300,000	650,000	(300,000)	–	650,000		
Ex-Directors									
Mr. Yip Wai Leung, Jerry	7 June 2004 ⁽¹⁾	0.63	150,000	–	–	–	150,000	0.63	N/A
Mr. Yip Wai Leung, Jerry	13 June 2005 ⁽¹⁾	0.80	200,000	–	–	–	200,000	0.80	N/A
Ms. Wong Wai Kwan, Connie	13 June 2005 ⁽¹⁾	0.80	300,000	–	(300,000)	–	–	0.80	1.08
			650,000	–	(300,000)	–	350,000		
Suppliers of goods or services, customers and others									
In aggregate	8 January 2003 ⁽¹⁾	1.23	5,882,000	–	–	(5,882,000)	–	1.23	N/A
	9 June 2003 ⁽¹⁾	1.15	9,486,000	–	–	(9,486,000)	–	1.15	N/A
	7 June 2004 ⁽¹⁾	0.63	3,000,000	–	(3,000,000)	–	–	0.63	1.08
	13 June 2005 ⁽¹⁾	0.80	73,000,000	–	(73,000,000)	–	–	0.80	1.06
	20 June 2006 ⁽²⁾	0.89	–	60,500,000	–	–	60,500,000	0.89	N/A
			91,368,000	60,500,000	(76,000,000)	(15,368,000)	60,500,000		
Other employees									
In aggregate	8 January 2003 ⁽¹⁾	1.23	498,000	–	–	(498,000)	–	1.23	N/A
	9 June 2003 ⁽¹⁾	1.15	892,000	–	–	(892,000)	–	1.15	N/A
	7 June 2004 ⁽¹⁾	0.63	9,030,000	–	(9,000,000)	–	30,000	0.63	1.08
	13 June 2005 ⁽¹⁾	0.80	19,709,000	–	(18,869,000)	–	840,000	0.80	1.09
	20 June 2006 ⁽²⁾	0.89	–	40,787,000	–	–	40,787,000	0.89	N/A
			30,129,000	40,787,000	(27,869,000)	(1,390,000)	41,657,000		
Share options granted under the New Scheme			122,447,000	101,937,000	(104,469,000)	(16,758,000)	103,157,000		

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Note:

- (1) The exercisable period of the above share options is 3 years from the date of the grant as determined by the Directors.
- (2) The exercisable period of the above share options is 3 years from the date of the grant as determined by the Directors subject to the conditions that the maximum percentage of the total number of shares under Share Option that can be subscribed for pursuant to the exercise of the Share Option (including those Shares which have been allotted and issued to you under the Share Option) cannot exceed:
 - (a) 20% commencing from the date of option certificate and ending on the day immediately before the first anniversary of the date of option certificate;
 - (b) 50% commencing from the date of option certificate and ending on the day immediately before the second anniversary of the date of option certificate;
 - (c) 100% commencing from the date of option certificate and ending on the day immediately before the second anniversary of the date of option certificate.
- (3) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average closing price of the shares immediately before the dates on which share options were exercised.

The fair value of share options granted is recognised in profit and loss account taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

Subsequent to the balance sheet date, there is no any new share option granted by the Company.

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DIRECTORS

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

Executive Directors

Mr. Lau Jin Wei, Jim

Mr. Wong Ying Yin

Mr. Bang Young Bae (appointed on 9 June 2006)

Ms. Wong Wai Kwan, Connie (resigned on 9 June 2006)

Independent Non-executive Directors

Mr. Ou Ying Ji

Mr. Lin Jian

Mr. Lee Pak Chung

In accordance with the Company's Articles of Association, Mr. Lau Jin Wei, Jim and Mr. Wong Ying Yin will retire from office of Director by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Directors of the Company are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's Articles of Association. The Independent Non-executive Directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the Company's Articles of Association.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out from page 11 to page 13.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of one year commencing from 1 January 2006 (the "Previous Contracts"). Upon the expiry of the Previous Contracts, each of the existing Executive Directors has renewed the service contract with the Company for a term of one year commencing from 1 January 2007 (the "New Contracts"). The New Contracts continue thereafter until terminated by either party giving not less than one month's notice in writing to the other party.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

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DIRECTORS' INTERESTS IN CONTRACTS

No other contracts of significance in relation to the Group's business to which the Company or 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.

CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31 December 2006, which constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Significant related party transactions entered into by the Group during the year ended 31 December 2006, which do not constitute connected transactions under the Listing Rules, are disclosed in note 40 to the accounts.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES OR WARRANTS

At 31 December 2006, the interests (which are all long positions) of the Directors and Chief Executives in the ordinary shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (including interest which they are deemed or taken to have under such provisions of the SFO)), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company were as follows:

Name of Director	Number of ordinary shares/underlying shares held			
	Personal interests	Corporate interests	Family interests	Percentage holding
Mr. Lau Jin Wei, Jim	5,400,000 (note (a))	–	80,712,000 (note (b))	8.23%
Mr. Choi Woon Man	860,200 (note (c))	79,668,000 (note (d))	–	7.69%
Ms. Wong Wai Kwan, Connie	300,050 (note (e))	–	–	0.03%
Mr. Wong Ying Yin	650,000 (note (f))	–	–	0.06%
Mr. Bang Young Bae	500,000 (note (g))	–	–	0.05%

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Notes:

- (a) The personal interest of Mr. Lau Jin Wei, Jim comprises of 5,400,000 ordinary shares of the Company.
- (b) There are 80,712,000 ordinary shares of the Company as shown above held by Motivated Workforce Consultants Limited ("MWC"), a company incorporated in the British Virgin Islands. The entire share capital of MWC is owned by Mr. Lau Ru Dong, the father of Mr. Lau Jin Wei, Jim.
- (c) The personal interest of Mr. Choi Woon Man comprises of 860,200 ordinary shares of the Company. Mr. Choi Woon Man resigned as Director of the Company on 30 September 2004.
- (d) There are 79,668,000 ordinary shares of the Company as shown above held by Inviting Finance Limited ("IFL"), a company incorporated in the British Virgin Islands. The entire share capital of IFL is owned by Mr. Choi Woon Man.
- (e) The personal interest of Ms. Wong Wai Kwan, Connie comprises of 50 ordinary shares and 300,000 underlying shares in respect of share options granted by the company to her, the details of which are stated in the above section "Share options". Ms. Wong Wai Kwan retired as Director of the Company on 9 June 2006.
- (f) The personal interest of Mr. Wong Ying Yin comprises of 300,000 ordinary shares and 350,000 underlying shares in respect of share options granted by the company to him, the details of which are stated in the above section "Share options".

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- (g) The personal interest of Mr. Bang Young Bae comprises of 200,000 ordinary shares and 300,000 underlying shares in respect of share options granted by the company to him, the details of which are stated in the above section "Share options". Mr. Bang Young Bae was appointed as Director of the Company on 9 June 2006.

Name of Director	Number of 2007 Warrants granted		
	Personal interests	Corporate interests	Family interests
Mr. Lau Jin Wei, Jim	540,000 (note (a))	—	6,020,000 (note (b))
Mr. Choi Woon Man	46,920 (note (c))	7,200,000 (note (d))	—
Ms. Wong Wai Kwan, Connie	25,000 (note (e))	—	—

Name of Director	Number of 2008 Warrants granted		
	Personal interests	Corporate interests	Family interests
Mr. Lau Jin Wei, Jim	540,000 (note (a))	—	6,020,000 (note (b))
Mr. Choi Woon Man	46,920 (note (c))	7,200,000 (note (d))	—
Ms. Wong Wai Kwan, Connie	25,000 (note (e))	—	—

Each of the 2007 Warrant entitles the holder thereof to subscribe for one ordinary share at subscription price of HK\$0.9654 per share, payable in cash and subject to adjustment, at any time during the period from 8 July 2005 to 7 July 2007 (both dates inclusive). Each of the 2008 Warrant entitles the holder thereof to subscribe for one ordinary share at subscription price of HK\$1.3 per share, payable in cash and subject to adjustment, at any time during the period from 8 July 2005 to 7 July 2008 (both dates inclusive). Any shares falling to be issued upon the exercise of the subscription rights attaching to the 2007 Warrants and 2008 Warrants rank pari passu in all respects with the existing fully-paid ordinary shares in issue on the relevant subscription date.

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Notes:

- (a) The personal interest of Mr. Lau Jin Wei, Jim comprises of 540,000 2007 Warrants and 540,000 2008 Warrants of the Company.
- (b) There are 6,020,000 2007 Warrants and 6,020,000 2008 Warrants of the Company held by MWC, a company incorporated in the British Virgin Islands. The entire share capital of MWC is owned by Mr. Lau Ru Dong, the father of Mr. Lau Jin Wei, Jim.
- (c) The personal interest of Mr. Choi Woon Man comprises of 46,920 2007 Warrants and 46,920 2008 Warrants of the Company. Mr. Choi Woon Man resigned as Director of the Company on 30 September 2004.
- (d) There are 7,200,000 2007 Warrants and 7,200,000 2008 Warrants of the Company held by IFL, a company incorporated in the British Virgin Islands. The entire share capital of IFL is owned by Mr. Choi Woon Man.
- (e) The personal interest of Ms. Wong Wai Kwan, Connie comprises of 25,000 2007 Warrants and 25,000 2008 Warrants of the Company. Ms. Wong retired as Director of the Company on 9 June 2006.

Save as disclosed above, no directors, chief executives or their associates had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, the register of substantial shareholders maintained under Section 336 of the SFO showed that, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital:

Name of shareholder	Number of ordinary shares	Number of 2007/2008 Warrants	Percentage of the Company's share capital
MWC	80,712,000	12,040,000	8.86%
IFL	79,668,000	14,400,000	8.99%

All the interests disclosed above represent long positions in the shares of the Company.

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Save as disclosed above, the Company has not been notified by any other person (other than a director of the Company disclosed above) who has an interest or short position in the shares or underlying shares of the Company pursuant to Section 336 of the SFO as at 31 December 2006.

MANAGEMENT CONTRACTS

No contracts 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.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	7%
– five largest suppliers combined	27%
Sales	
– the largest customer	10%
– five largest customers combined	41%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

COMPLIANCE OF CODE OF CORPORATE GOVERNANCE PRACTICE OF LISTING RULES

Information on the Company's compliance of the Code of Corporate Governance Practice ("CG Code") as set out in Appendix 14 of the Listing Rules and deviations from certain code provisions of the CG Code for the year is set out in the Corporate Governance Report in this annual report.

AUDIT COMMITTEE

The Company's Audit Committee comprises three Independent Non-executive Directors, namely Mr. Ou Ying Ji, Mr. Lin Jian and Mr. Lee Pak Chung.

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

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The Audit Committee met twice during the year of 2006 in conjunction with the auditors to review the internal controls, interim results and final accounts of the Group prior to recommending them to the Board for approval.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors have an interest in any business constituting a competing business to the Group.

PENSION SCHEME ARRANGEMENTS

On 1 December 2000, the Group set up a Mandatory Provident Fund Scheme (the "MPF Scheme") in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The assets of the MPF Scheme are held separately from those of the Group and under control of an independent trustee.

Both the Group and its employees located in Hong Kong are required to contribute 5% of the employees' monthly salaries. The mandatory contributions required to be made by the Group and an employee are capped at HK\$1,000 per month. Members are entitled to 100% of the employers' mandatory contributions as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or in accordance with the rules of the MPF Scheme.

Pursuant to the relevant regulations of the government of the People's Republic of China (the "PRC"), a subsidiary of the Company operates a local municipal government retirement benefits scheme (the "PRC Scheme") for its employees located in the PRC. The subsidiary is required to make contributions to the PRC Scheme at rates specified by the local practice and regulations and the local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary. The only obligation of the Group is to make the ongoing required contributions to the PRC Scheme.

The Group's retirement benefit costs are charged to the consolidated profit and loss account when incurred and the aggregate contributions paid or payable by the Group was approximately HK\$702,000 for the year ended 31 December 2006 (2006: HK\$538,000). There were no provisions under the Group's retirement schemes whereby forfeited contributions may be used to reduce future contributions.

SUBSEQUENT EVENTS

Subsequent to the balance sheet date, a subsidiary of the Group, Global Success Properties Limited, entered into an agreement with Cristal Marketing Management Limited for purchase of 17% of the issued shares in Global Cosmetics (HK) Company Limited, a subsidiary of the Group in which the Group had already owned 70% of the issued shares. After completion of the deal, the Group would increase its shareholdings in Global Cosmetics (HK) Company Limited from 70% to 87%. The total consideration of the purchase was HK\$241.09 million which was to be settled by cash. For details of the transaction, please refer to the announcement dated 19 January 2007.

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AUDITORS

The financial statements for the year ended 31 December 2006 were audited by CCIF CPA Limited. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint CCIF CPA Limited as auditors of the Company.

On behalf of the Board

Lau Jin Wei, Jim

Chairman

Hong Kong, 27 April 2007