

# Report of The Directors

The directors submit their report together with the audited financial statements for the year ended 31st December 2006.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 8 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 31.

The details of dividends paid and declared during the year are set out in note 28 to the financial statements.

The directors recommend the payment of a final dividend of HK4.5 cents (2005: HK9 cents) per ordinary share, totaling HK\$9,446,000 (2005: HK\$18,349,000).

## RESERVES

Movements in retained earnings of the Group during the year are set out on page 32.

Movements in other reserves of the Group and of the Company during the year are set out in note 15 to the financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$10,000 (2005: HK\$22,000).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 7 to the financial statements.

## LEASEHOLD LAND

Details of the movements in leasehold land of the Group are set out in note 6 to the financial statements.

## Report of The Directors (Continued)

### SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 14 to the financial statements.

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2006, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$103,424,000 (2005: HK\$112,053,000)

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### 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 78.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### BORROWINGS

The Group's borrowings, including secured bank loans, collateralised borrowings, trust receipt loans and overdrafts as at 31st December 2006 of HK\$189,692,000 are repayable within one year.

## Report of The Directors (Continued)

### SHARE OPTIONS

Pursuant to the written resolutions passed by the shareholders of the Company on 17th June 2003, the Company had adopted a share option scheme (the "Scheme") for the principal purpose of providing incentives and rewards to eligible participants who contribute to the growth and success of the Group. Under the Scheme, the directors of the Company may, at their absolute discretion, invite (i) any employees (whether full time or part time) of any member of the Group or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director; (ii) any non-executive director (including independent non-executive director) of any member of the Group or any Invested Entity; (iii) any consultant, adviser or agent engaged by any member of the Group or any Invested Entity, who, under the terms of relevant engagement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company; and (iv) any vendor, supplier of goods or services or customer of or to any member of the Group or Invested Entity who, under the terms of relevant agreement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company. The Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10th July 2003 (the "Listing Date") and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption on 17th June 2003. There is no change to the terms of the Scheme since adoption.

All share options granted under the share option scheme of the Company have been exercised and lapsed in year 2005, details of which have been disclosed in 2005 annual report. During the year, no option has been granted under the share option scheme.

### DIRECTORS

The directors during the year were:

#### Executive directors

Mr LEE Sou Leung, Joseph (*Chairman*)  
Ms TAN, Lisa Marie (*Deputy Chairman*)  
Mr CHAN Ching Huen, Stanley

#### Independent non-executive directors

Mr PIKE, Mark Terence  
Dr LUI Sun Wing  
Mr NIMMO, Walter Gilbert Mearns

In accordance with Bye-Law 87(1) of the Company's Bye-Laws, one third of the directors (or if the number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation at each annual general meeting.

Mr Lee Sou Leung, Joseph and Dr Lui Sun Wing are subject to re-election at the forthcoming annual general meeting.

## Report of The Directors (Continued)

### **DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which may be terminated by each party thereto giving to the other party three months' prior notice in writing, or three months' basic salary in lieu of notice, which notice period shall not expire at any time during the first year.

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.

### **DIRECTORS' INTERESTS IN CONTRACTS**

A director, Mr LEE Sou Leung, Joseph, has entered into lease agreements for the lease of office premises to one of the subsidiaries of the Group for the year amounted to HK\$144,000. The directors are of the opinion that the transactions have been entered into in the ordinary and usual course of business of the Group, the terms are negotiated on an arm's length basis and on normal commercial terms, and are fair and reasonable in the interests of the shareholders of the Company as a whole.

Saved as disclosed herein, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company 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.

### **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Brief biographical details of directors and senior management are set out on page 8 to 10.

## Report of The Directors (Continued)

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st December 2006, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations and their associates (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company, were as follows:

Director		Number of ordinary shares of HK\$0.10 each held			Total	Percentage
		Personal interests	Family interests	Other Interests		
Mr. LEE Sou Leung, Joseph ("Mr. Lee")	Long position	2,868,000 shares	816,000 shares (Note (b))	139,523,170 shares (Note (a))	143,207,170 shares	68.22%
	Short position	Nil	Nil	Nil	Nil	–
Ms. TAN, Lisa Marie ("Ms. Tan")	Long position	816,000 shares	2,868,000 shares (Note (c))	139,523,170 shares (Note (a))	143,207,170 shares	68.22%
	Short position	Nil	Nil	Nil	Nil	–
Mr. CHAN Ching Huen ("Mr. Chan")	Long position	200,000 shares	Nil	Nil	200,000 shares	0.10%
	Short position	Nil	Nil	Nil	Nil	–
Mr. NIMMO, Walter Gilbert Mearns ("Mr. Nimmo")	Long position	Nil	154,445 shares (Note (d))	Nil	154,445 shares	0.07%
	Short position	Nil	Nil	Nil	Nil	–

(a) The 139,523,170 shares are held by Peak Power Technology Limited in its capacity as the trustee of The Lee Family Unit Trust holding the same for the benefit of holders of units issued by The Lee Family Unit Trust. HSBC International Trustee Limited is the trustee of the LMT Trust whose discretionary objects are Ms. Tan and Mr. Lee's family members. The aforesaid shares that Mr. Lee and Ms. Tan are deemed to be interested refer to the same parcel of shares.

(b) Mr. Lee is the husband of Ms. Tan. The personal interests of Ms. Tan above are also disclosed as the family interests of Mr. Lee.

(c) The personal interests of Mr. Lee above are disclosed as the family interest of Ms. Tan.

(d) The 154,445 shares are beneficially owned by Mr. Nimmo's spouse.

Other than as disclosed above, at no time during the year was the Company, its subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

## Report of The Directors (Continued)

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

At 31st December 2006, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

### 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 CUSTOMERS AND SUPPLIERS

The aggregate percentage of sales for the year attributable to the Group's five largest customers is less than 30% of total sales for the year and therefore no disclosure with regard to major customers are made. The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

Purchases	
– the largest supplier	22%
– five largest suppliers combined	71%

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 noted above.

### CORPORATE GOVERNANCE

The Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the financial year ended 31st December 2006 except for Code Provision A.2 as Mr. Lee Sou Leung, Joseph is the Chairman and the Managing Director of the Company but the daily operation and management of the Company is monitored by the executive directors as well as the senior management to ensure the balance of power and authority.

Further information is set out in the Corporate Governance Report contained in this annual report.

### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry had been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31st December 2006.

## Report of The Directors (Continued)

### AUDIT COMMITTEE

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 Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditor in matters coming within the scope of the Group’s audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Mr PIKE, Mark Terence, Dr Lui Sun Wing and Mr. NIMMO, Walter Gilbert Mearns. Four meetings were held during the financial year under review.

### PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the percentage of the ordinary shares in public hands exceed 25% as at 26th April 2007.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to rule 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors. The Company confirms that it has received from each of the independent non-executive directors a confirmation of his independence pursuant to rule 3.13 and the Company still considers all the existing independent non-executive directors to be independent.

### PENSION SCHEME ARRANGEMENTS

The Group operated a defined contribution retirement scheme, an Occupational Retirement Scheme, for qualified employees, including executive directors of the Company, in Hong Kong prior to 1st December 2000. The cost charged to the income statement represents contributions payable or paid to the funds by the Group at the rate of 5% of the salary with a ceiling of HK\$1,000 per month for general staff and there is no ceiling for managerial staff. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

With effect from 1st December 2000, a Mandatory Provident Fund scheme (the “MPF scheme”) has been set up for employees in Hong Kong, in accordance with the Mandatory Provident Fund Scheme Ordinance. Commencing on 1st December 2000, the existing employees in Hong Kong may elect to join the MPF scheme, and all new employees in Hong Kong are required to join the MPF scheme. Under the rules of the MPF scheme, the employer and its employees in Hong Kong are each required to contribute 5% of their gross earnings with a ceiling of HK\$1,000 per month to the MPF scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years. The MPF contributions charged to the income statement represent the contributions payable or paid to the funds by the Group.

## Report of The Directors (Continued)

Employees in the Company's subsidiaries in the People's Republic of China (the "PRC") are required to participate in defined contribution retirement schemes operated by the local municipal governments. The retirement schemes for employees of the Company's overseas subsidiaries follow the local statutory requirements of the respective countries. Contributions are made to the schemes based on a certain percentage of the applicable employee payroll.

Details of the pension scheme contributions of the Group for the year ended 31st December 2006 are set out in note 22 to the financial statements.

### AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**LEE Sou Leung, Joseph**  
*Chairman*

Hong Kong, 26th April 2007