

Report of the Directors

The Directors herein 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. The activities of its principal subsidiaries and associates are set out in notes 18 and 19 to the financial statements, respectively.

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 24 to 89.

The Directors did not recommend the payment of any dividend in respect of the year.

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SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate and after adjustment for the effect of the prior year adjustment in 2006 is set out below.

	Year ended 31 December				
	2006	2005	2004	2003	2002
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER					
Continuing operations	51,177	26,481	141,619	–	–
Discontinued operations	–	258	2,475	195,456	152,916
	<u>51,177</u>	<u>26,739</u>	<u>144,094</u>	<u>195,456</u>	<u>152,916</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES					
ATTRIBUTABLE TO EQUITY HOLDERS					
OF THE COMPANY					
	<u>73,426</u>	<u>(150,640)</u>	<u>(50,682)</u>	<u>(36,693)</u>	<u>(27,953)</u>
ASSETS, LIABILITIES AND MINORITY INTERESTS					
	As at 31 December				
	2006	2005	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	154,471	95,255	307,422	566,697	475,855
Total liabilities	(19,616)	(59,846)	(126,966)	(298,189)	(219,527)
Minority interests	(207)	(179)	(1,078)	(107,453)	(96,451)
	<u>134,648</u>	<u>35,230</u>	<u>179,378</u>	<u>161,055</u>	<u>159,877</u>

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 are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company for the year ended 31 December 2006, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements, respectively.

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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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The Company did not have any reserves available for cash distribution or distribution in specie at 31 December 2006 as computed in accordance with the Companies Act 1981 of Bermuda (as amended). The Company's share premium account as at 31 December 2006 is HK\$23,271,000. On 20 March 2006, an amount of HK\$564,123,000 standing to the credit of share premium account and the credit arising from the Capital Reduction were transferred to the contributed surplus account and an amount of HK\$688,054,000 standing to the contributed surplus account was applied to set off against the accumulated losses of the Company.

DIRECTORS

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

Executive Directors

Kwok Ying Chuen	(resigned on 1 June 2006)
Yu Won Kong, Dennis	(resigned on 1 June 2006)
Wong Tak Chung, Andrew	
Wong Ching Ping, Alex (<i>Chairman</i>)	(appointed on 9 August 2006)

Independent Non-executive Directors

Tso Hon Sai, Bosco	
Kwok Chi Sun, Vincent	(resigned on 19 June 2006)
Cheng Wing Keung, Raymond	(resigned on 20 September 2006)
Hui Wai Man, Shirley	(appointed on 19 June 2006)
Tang Yiu Wing	(appointed on 20 September 2006)

In accordance with Bye-laws 91 and 99(B) of the Company's Bye-laws, Mr. Wong Ching Ping, Alex, Ms. Hui Wai Man, Shirley, Mr. Tang Yiu Wing and Mr. Tso Hon Sai, Bosco, will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of each independent non-executive Director, is the period up to his retirement by rotation in accordance with the Bye-laws of the Company.

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DIRECTORS' SERVICE CONTRACTS

No director 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' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance of the Laws of Hong Kong (the "SFO")) which were required, 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 provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange, were as follows:

Long position in ordinary shares of HK\$0.02 each of the Company:

Name of Director	Nature of interest	Number of ordinary shares held	Percentage holdings
Wong Ching Ping, Alex	Through controlled corporation	36,324,994	17.8%

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV 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 they were 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 referred to therein, or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Long Position in underlying shares

Under the share option scheme of the Company, share options may be granted to Directors, employees and other eligible participants to subscribe for shares. No share options was granted to any Director during the year and as at 1 January 2006 and 31 December 2006, no Director has any outstanding interest in any share options. No share options was exercised, cancelled or lapsed during the year.

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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.

Subsequent to the financial year ended 31 December 2006, Ms. Yiu Kwan Fung, a director of a subsidiary of the Company, entered into a conditional sale and purchase agreement dated 2 March 2007 to acquire the entire issued share capital of Firststone Enterprises Limited (an indirect wholly-owned subsidiary of the Company) and shareholder's loan at a nominal consideration of HK\$50,000 through Profit Leap International Limited, a company which is wholly-owned by Ms. Yiu.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company, or any of its subsidiaries a party to any arrangement whose objects were to enable a Director or his respective spouse or minor children to acquire benefits by means of acquisition of shares of the Company or any other body corporate, or were any such rights exercised by them.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SECURITIES

As at 31 December 2006, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the Company or had any option in respect of such capital:

Name	Nature of Interest	Number of shares interested or deemed to be interested (long position)	Percentage to the issued share capital of the Company %
Mega Earn Management Limited	Beneficial	34,219,319 (Note 1)	16.8
Expert Rich Investments Limited	Through controlled corporation	36,324,994 (Note 2)	17.8
Mr. Wong Ching Ping, Alex ("Mr. Wong")	Through controlled corporation	36,324,994 (Note 3)	17.8
Ms. Gomes Maria Da Silva Rubi Angela	Family	36,324,994 (Note 3)	17.8

Notes:

1. Mega Earn Management Limited is a company wholly-owned by Byford Group Limited. The entire issued share capital of Byford Group Limited is held by Expert Rich Investments Limited which in turn was wholly owned by Mr. Wong.
2. Expert Rich Investments Limited is deemed to be interested in the 36,324,994 shares through its interests in Byford Group Limited. The 36,324,994 shares comprise (i) 2,105,675 shares directly held by Byford Group Limited and 34,219,319 shares held by Mega Earn Management Limited.
3. Mr. Wong is deemed to be interested in the 36,324,994 shares through his interests in Expert Rich Investments Limited. Ms. Gomes Maria Da Silva Rubi Angela is the spouse of Mr. Wong and therefore, she is also deemed to be interested in the shares.

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Save as disclosed above, as at 31 December 2006, so far as is known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had any interests or short positions in shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the Company or held any option in respect of such capital.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 53% of the Group's total sales for the year and sales to the largest customer included therein amount to 50%. Purchases from the Group's five largest suppliers accounted for 92% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to 64%.

None of the Directors 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 suppliers.

CONNECTED TRANSACTIONS

There was no connected transactions that was not exempted under rule 14A.31 of the Listing Rules during the year.

Subsequent to the year ended 31 December 2006, Preciseworth Investments Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement dated 2 March 2007 with Profit Leap International Limited ("Profit Leap") to dispose the entire issued share capital of Firststone Enterprises Limited and the entire shareholder's loan due to the Group at a nominal consideration of HK\$50,000.

Profit Leap is an investment holding company and is wholly-owned by Ms. Yiu Kwan Fung, a director of a subsidiary of the Company, and therefore, Profit Leap is a connected person of the Company as defined in the Listing Rules and the transaction was constituted as a major and connected transaction, which was completed on 16 April 2007.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 15 to 20.

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BOARD PRACTICES

The Company had received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company was of the view that all the independent non-executive Directors met the independence guidelines as set out in rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITORS

Moore Stephens had been appointed as auditors of the Company after the resignation of Ernst & Young in December 2004. During the year, Moore Stephens resigned and CCIF CPA Limited was appointed as auditors of the Company in January 2007.

A resolution will be submitted to the annual general meeting to re-appoint the auditors, CCIF CPA Limited.

On behalf of the Board

Fortuna International Holdings Limited

Wong Ching Ping, Alex

Chairman

Hong Kong, 19 April 2007