

# REPORT OF THE DIRECTORS

The directors present their 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. Details of the activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## 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 25 to 83.

An interim dividend of HK2 cents per ordinary share was paid on 31 October 2006. The directors recommend the payment of a final dividend of HK3.5 cents per ordinary share in respect of the year to shareholders on the register of members on Wednesday, 23 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 84. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in the Company's share capital, share options and warrants during the year are set out in notes 31 and 32 to the financial statements.

## 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.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## 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.

## **DISTRIBUTABLE RESERVES**

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$94,553,000, of which HK\$16,540,000 (2005: HK\$8,305,000) has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$104,854,000, may be distributed in the form of fully paid bonus shares.

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 45.7% (2005: 47.4%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 23.0% (2005: 22.7%).

Purchases from the Group's five largest suppliers accounted for approximately 45.1% (2005: 42.6%) of the total purchases for the year and purchase from the largest supplier included therein amounted to approximately 24.1% (2005: 18.5%).

None of the directors of the Company 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 customers or suppliers.

## **DIRECTORS**

The directors of the Company during the year were as follows:

### **Executive Directors**

Mr. Chan Ho Sing  
Mr. Ko Pak On

### **Independent Non-Executive Directors**

Dr. Li Sau Hung, Eddy  
Mr. Lo Kwok Kwei, David  
Mr. Mar, Selwyn

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Chan Ho Sing and Mr. Mar, Selwyn, will retire from office by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Dr. Li Sau Hung, Eddy, Mr. Lo Kwok Kwei, David and Mr. Mar, Selwyn pursuant to Rule 3.13 of the Listing Rules and still considers them to be independent.

## **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 13 of the annual report.

## **DIRECTORS' SERVICE CONTRACTS**

Mr. Chan Ho Sing has entered into a service contract with the Company for an fixed term of two years commencing on 1 January 2006 and the contract will expire on 31 December 2007.

Mr. Ko Pak On has entered into a service contract with the Company for an fixed term of two years commencing on 1 January 2007 and the contract will expire on 31 December 2008.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' REMUNERATION**

The directors' fees are subject to shareholders' approval at the annual general meetings. Other emoluments are determined by the Company's Remuneration Committee with reference to directors' duties, responsibilities and performance and the results of the Group.

## **REMUNERATION COMMITTEE**

The Company has a Remuneration Committee which was established on 22 March 2006 in compliance with the Code on Corporate Governance Practices ("CGP") as set out in Appendix 14 to the Listing Rules for the purpose of making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The Remuneration Committee comprises two Independent Non-Executive Directors ("INEDs") and one Executive Director of the Company.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No director of the Company 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.

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 31 December 2006, the interests and short positions of the directors in shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to the Listing Rules ("Model Code"), were as follows:

**Long positions in ordinary shares and underlying shares of the Company as at 31 December 2006:**

Number of shares and underlying shares held, capacity and nature of interest						
Name of director	Notes	Capacity	Nature of interest	Interest in shares	Interest in underlying shares (options)	Approximate percentage of the Company's issued share capital
Chan Ho Sing	(a)	Founder of discretionary trust	Family	209,689,667	-	46.89
Chan Ho Sing	(b)	Interest of Spouse	Family	5,500,000	400,000	1.32
Chan Ho Sing		Beneficial owner	Personal	23,955,667	-	5.36
Ko Pak On		Beneficial owner	Personal	766,666	2,500,000	0.73

Notes:

- (a) These shares are owned by Man Yue Holdings Inc., a company incorporated in the Bahamas, the entire issued share capital of which is ultimately beneficially owned by the family trust of Chan Ho Sing.
- (b) The interest of spouse represents ordinary shares and share options held by Kee Chor Lin, the spouse of Chan Ho Sing.

In addition to the above, Mr. Chan Ho Sing has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above and as disclosed under the heading "DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES", as at 31 December 2006, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" above and in the share option schemes disclosures in note 32 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

During the year ended 31 December 2006, the Company granted 5,600,000 share options to employees, including Executive Directors, in accordance with the share option scheme adopted on 26 May 2006. The directors have estimated the values of the share options granted during the year, calculated by using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options HK\$'000
Mr. Ko Pak On	1,000,000	1,454
Other employees	4,600,000	6,681
	5,600,000	8,135

During the year, the cost of granting share options amounted to HK\$6,174,000 was recognised in the consolidated income statement.

### **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 31 December 2006, the following interests and short positions of 5% or more of the issued share capital and share options and warrants of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### **Long positions as at 31 December 2006:**

Name	Note	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of Company's issued shares capital
Man Yue Holdings Inc.	1	Beneficial interest	209,689,667	46.89

*Note 1:* Man Yue Holdings Inc. is ultimately beneficially owned by the family trust of Chan Ho Sing.

The details of the share options outstanding during the year are separately disclosed in note 32 to the financial statements.

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## DISCLOSURES PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

### 2005 loan agreement

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Group's loan agreement, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to the Company entered into an interest-bearing 3-year transferable term loan and revolving loan facilities agreement dated 6 October 2005 with a syndicate of banks in the aggregate amount HK\$280,000,000, a termination event would arise if:

- Mr. Chan ceases to be the Chairman of the Group; or
- Mr. Chan ceases to be actively involved in the day-to-day management and business of the Company.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 39 to the financial statements.

### AUDIT COMMITTEE

The Company has an Audit Committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three INEDs of the Company.

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chan Ho Sing**

*Chairman*

Hong Kong

18 April 2007