

Report of the Directors

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

Principal activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 28 of the annual report.

An interim dividend of HK2.5 cents per share amounting to HK\$18,049,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK5.5 cents per share, amounting to approximately HK\$39,857,000, to the shareholders on the register of members on 11 June 2007.

Property, plant and equipment and investment properties

The Group revalued its land and buildings at the year end date. The revaluation resulted in a surplus over book values amounting to HK\$6,304,000, of which HK\$5,507,000 has been credited directly to the property revaluation reserve and HK\$797,000 has been credited to consolidated income statement, respectively.

The Group revalued its investment properties at the year end date. The net increase in fair value of investment properties, which has been credited directly to consolidated income statement, amounted to HK\$2,200,000.

Details of these and other movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 15 and 16 to the consolidated financial statements, respectively.

Share capital

Details of share capital of the Company are set out in note 29 to the consolidated financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), details of which are set out in note 29 to the consolidated financial statements. The directors considered that the repurchases could result in an increase in earnings per share of the Group.

Distributable reserves of the company

The Company's reserves available for distribution to shareholders as at 31 December 2006 and 2005 were as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Contributed surplus	244,461	244,461
Accumulated profits	2,456	3,200
	246,917	247,661

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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 consolidated financial statements and restated and reclassified as appropriate, is set out on page 78. This summary does not form part of the audited consolidated financial statements.

Directors

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

Executive directors:

Mr. Huang Ying Yuan (*Chairman*)

Mr. Chen Hsing Shin (*Vice Chairman*)

Mrs. Huang Chen Li Chu (*Vice Chairman*)

Mr. Leung Man Fai

Independent non-executive directors:

Mr. Lim Pat Wah Patrick

Mr. Huang Zhi Wei

Mr. Tyrone Lin

Mr. Yang Yu Fu

(appointed on 6 November 2006)

(resigned on 1 November 2006)

Pursuant to clause 86 of the Company's bye-laws, Mr. Tyrone Lin, being director appointed during the year, shall hold office only until the next following general meeting after his appointment and will therefore retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with clause 87 of the Company's bye-laws, Mrs. Huang Chen Li Chu and Mr. Lim Pat Wah Patrick retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other directors will continue in office.

The terms of office of the independent non-executive directors are subject to retirement by rotation in accordance with the Company's bye-laws.

Directors' service contracts

Each of the executive directors, except for Mr. Leung Man Fai, has entered into a service agreement with the Company for a period of three years commencing 1 December 1998 and will continue thereafter unless and until terminated by either party by three months' prior written notice.

Other than as disclosed above, no directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' interests in shares and underlying shares

At 31 December 2006, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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 (the "Model Code"), contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Number of shares held as		Total	Approximate % of the issued share capital	Share options
	Beneficial owner	Spouse interests			
Mr. Huang Ying Yuan	104,153,360	43,336,180 <i>(Note 1)</i>	147,489,540	20.4	7,000,000 <i>(Note 2)</i>
Mr. Chen Hsing Shin	96,805,800	—	96,805,800	13.4	3,500,000
Mrs. Huang Chen Li Chu	43,336,180	104,153,360 <i>(Note 1)</i>	147,489,540	20.4	7,000,000 <i>(Note 3)</i>
Mr. Leung Man Fai	—	—	—	—	2,500,000

Notes:

1. The spouse interest represents the shares held by the spouse of Mr. Huang Ying Yuan and Mrs. Huang Chen Li Chu, respectively. Mrs. Huang Chen Li Chu is the spouse of Mr. Huang Ying Yuan.
2. It represents 4,000,000 share options beneficially owned by Mr. Huang Ying Yuan and 3,000,000 share options held by his spouse.
3. It represents 3,000,000 share options beneficially owned by Mrs. Huang Chen Li Chu and 4,000,000 share options held by her spouse.

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, which were recorded in the register maintained by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Share options

Particulars of the share option schemes and the movements in share options of the Company are set out in note 30 to the financial statements.

Arrangements to purchase shares or debentures

Other than disclosed 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 debt securities (including debentures) of, the Company or any other body corporate.

Substantial shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2006, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long position in shares and underlying shares of the Company

Name of substantial shareholders	Number of shares	Capacity	Approximate % of the issued share capital
Allianz Aktiengesellschaft	66,032,000	Corporate interest (<i>Note i</i>)	9.1%
Dresdner Bank Aktiengesellschaft	66,032,000	Corporate interest (<i>Note i</i>)	9.1%
Veer Palthe Voute NV	66,032,000	Investment manager (<i>Note i</i>)	9.1%
OCM Emerging Markets Funds, LP	38,122,000	Investment manager	5.3%
Mr. David Michael Webb	36,742,000	(<i>Note ii</i>)	5.1%
Mr. Chen An Hsin	36,689,675	Corporate interest (<i>Note iii</i>)	5.1%
Gold Field Business Ltd.	36,689,675	Beneficial owner (<i>Note iii</i>)	5.1%

Note:

- (i) Veer Palthe Voute NV was 100% indirectly owned by Dresdner Bank Aktiengesellschaft, which was 81.1% indirectly owned by Allianz Aktiengesellschaft.
- (ii) Mr. David Michael Webb beneficially owns 5,110,000 shares, and in addition, he holds 31,632,000 shares through Preferable Situation Assets Limited, which is 100% directly owned by him.
- (iii) Mr. Chen An Hsin owns the entire interest of Gold Field Business Ltd.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31 December 2006.

Connected transactions

During the year, Group had made sales of infant products, toys and other products of HK\$3,169,000 to 好萊兒嬰兒用品有限公司, a company in which Huang Tien Cheng, a brother of Mr. Huang Ying Yuan, has beneficial and controlling interests.

Details of the discloseable connected transactions during the year are set out in note 28 to the consolidated financial statements. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors.

The independent non-executive directors have reviewed the above connected transactions and confirm that these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on arm's length basis, on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) in accordance with the terms of the agreements governing such transactions.

Save as disclosed herein and in note 28 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

Directors' interest in contracts of significance

Other than as disclosed under the heading "Connected transactions", no contracts of significance to which the Company and its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

Appointment of independent non-executive directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors independent.

Donations

During the year, the Group made charitable and other donations amounting to HK\$197,000.

Major customers and suppliers

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 42.8% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 17.3% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the total purchases of the Group.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owning more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers of the Group.

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, sale or redemption of the company's listed securities

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
May 2006	156,000	0.56	0.55	86,955

Save as described above, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

Emolument policy

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the board of directors, who are authorised by the shareholders in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 30 to the consolidated financial statements.

Sufficiency of public float

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

Auditors

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the board

Huang Ying Yuan

Chairman

13 April 2007