

## Report of the Directors

The directors of the Company have pleasure in presenting their annual report and the audited financial statements of the Group for the year ended 31st December, 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

Details of the activities of the principal subsidiaries of the Company are set out in note 36 to the financial statements.

### SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31st December, 2006 is set out in note 7 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 22 of the annual report.

During the year, an interim dividend of HK0.033 cent per ordinary share was paid to the shareholders of the Company.

The directors do not recommend payment of final dividend for the year ended 31st December, 2006.

### 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 58 of the annual report.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

### SHARE CAPITAL

Details of the movements in the share capital of the Company during the year together with the reasons therefore and up to the date of this report are set out in note 27 to the financial statements.

## Report of the Directors (Continued)

### SHARE PREMIUM AND RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

At the balance sheet date, in the opinion of the directors, the Company's share premium and reserves available for distribution to shareholders amounted to HK\$203,072,000.

Movement in the share premium and reserves of the Group during the year are set out on page 24 of the annual report.

### SHARE OPTION SCHEME

The Company operates a share option scheme for the purposes to enable the directors of the Company to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group. Summary of the terms of the share option scheme are set out in note 28 to the financial statements.

No share option has been offered and/or granted to any participants since the adoption of the share option scheme.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

### PURCHASE, REDEMPTION OR SALE 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.

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers taken together accounted for less than 30 per cent of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 7.4 per cent and 30.0 per cent respectively of the Group's total purchases for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5 per cent of the Company's share capital) has any interest in the Group's five largest suppliers.

## Report of the Directors (Continued)

### USE OF PROCEEDS FROM PLACEMENT OF NEW SHARES

In February 2004, the Company placed 160,000,000 new shares at HK\$0.45 per share. Net proceeds from the placement of new shares, after deducting the professional fees and all related expenses, amounted to approximately HK\$69.7 million. All of the net proceeds has been applied as follows:

- approximately HK\$15 million to improve and expand the production facilities of the Group;
- approximately HK\$5 million to support the research and development of the Group's products;
- approximately HK\$8 million to explore and develop the market for the Group in the eastern China;
- approximately HK\$5 million to reduce the Group's bank borrowings; and
- approximately HK\$36.7 million retained as general working capital and for future investment purposes.

In April 2007, the Company placed 191,600,000 new shares at HK\$0.172 per share. The net proceeds from the placement of new shares, after deducting the professional fees and all related expenses, amounted to approximately HK\$32.1 million will be applied as general working capital.

### DIRECTORS

The directors of the Company during the year ended 31st December 2006 and up to the date of this report were:

#### Executive directors

Mr. Cheng Kwok Woo, *Chairman*  
 Mr. Cheng Kwong Cheong, *Vice-Chairman and CEO*  
 Mr. Chow Yin Kwang  
 Ms. Cheng Wai Ying  
 Ms. Chan Yim Fan

#### Non-executive director

Mr. Zheng Jin Hong

#### Independent non-executive directors

Mr. Anthony Francis Martin Conway  
 Mr. Leung Yuen Wing  
 Mr. Lam Hon Ming Edward

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Chow Yin Kwang, Ms. Chan Yim Fan and Mr. Zheng Jin Hong shall retire from offices in the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

The biographic details of the directors are set out on pages 13 and 14 of the annual report.

## Report of the Directors (Continued)

### DIRECTORS' SERVICES CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years commencing from 1st October, 2002, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, 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.

### 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.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31st December, 2006, the directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code:

Long positions in the ordinary shares of the Company:

Directors	Number of shares held			Percentage of interests
	Personal interests	Corporate interests	Total interests	
Mr. Cheng Kwok Woo	54,400,000	318,438,000 (note)	372,838,000	38.92%
Mr. Cheng Kwong Cheong	54,400,000	318,438,000 (note)	372,838,000	38.92%
Ms. Cheng Wai Ying	54,400,000	318,438,000 (note)	372,838,000	38.92%
Ms. Chan Yim Fan	8,205,333	–	8,205,333	0.86%

Note: These shares are held by PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of PME Investments is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

## Report of the Directors (Continued)

### DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding company or subsidiaries a party to any arrangement to enable the directors or chief executive to acquire such rights in any other corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December 2006, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules, the following persons were interested (including short positions) in the shares of underlying shares of the Company:

Long positions in the ordinary shares of the Company:

Name	Notes	Number of shares held	Percentage of interests
PME Investments	1	318,438,000	33.24%
Mr. Cheng Kwok Woo	2	372,838,000	38.92%
Mr. Cheng Kwong Cheong	2	372,838,000	38.92%
Ms. Cheng Wai Ying	2	372,838,000	38.92%
Ms. Tsang Sui Tuen	3	372,838,000	38.92%
Ms. Wan Kam Ping	4	372,838,000	38.92%
Mr. Cheng Yau Kuen	5	372,838,000	38.92%

Notes:

- PME Investments is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.
- Each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying personally holds 54,400,000 shares of the Company, being approximately 5.68% of the entire issued share capital of the Company. Each of them is further beneficially interested in one-third of PME Investments and is accordingly deemed to be interested in the entire interests of PME Investments in the Company.
- Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interest in 372,838,000 shares of the Company that Mr. Cheng Kwok Woo has interest in.
- Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interest in 372,838,000 shares of the Company that Mr. Cheng Kwong Cheong has interest in.
- Mr. Cheng Yau Kuen is the spouse of Ms. Cheng Wai Ying and is accordingly deemed to have interest in 372,838,000 shares of the Company that Ms. Cheng Wai Ying has interest in.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31st December, 2006.

## Report of the Directors (Continued)

### CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 9 to 12 of the annual report.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

### AUDITORS

A resolution to reappoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Cheng Kwong Cheong**

*Vice-Chairman & CEO*

Hong Kong, 25th April, 2007