

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATION

Details of the results of the Group for the year are set out in the consolidated income statement on page 32.

The Directors recommend the payment of a final dividend for the year ended 31 December 2006 of HK\$0.045 (equivalent to approximately RMB0.045 per share to those shareholders whose names appear on the register of members on 5 June 2007, amounting to HK\$22.4 million (equivalent to approximately RMB22.4 million).

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, amount to RMB222.7 million (2005: RMB184.7 million). Under the Companies Law 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 and articles of association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 27 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired buildings of approximately RMB37.7 million and plant and machinery of approximately RMB22.9 million for the expansion and improvement of its production capacity. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS

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

Executive directors:

Mr. Yang Zongwang

(Chairman and Chief Executive Officer)

Mr. Xue De Fa

Mr. Xie Xi

Mr. Liu Zhi Qiang

Mr. Ng Kin Sun

(resigned on 8 January 2007)

Independent non-executive directors:

Mr. Tong Hing Wah

Mr. Chong Hoi Fung

Mr. Ng Wai Man

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 2 June 2003 and renewable automatically for successive terms of one year.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles.

In accordance with the provision of article 108 of the Company's Articles, Mr. Yang Zongwang, Mr. Xue De Fa and Mr. Xie Xi shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Other than as disclosed above, 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 EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2006, the interests and short positions of the Directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in the shares of the Company

Name of director	Type of interests	Number of issued ordinary shares held	Number of underlying Shares held pursuant to share options	Total	Approximate percentage of the issued share capital of the Company
Mr. Yang Zongwang ("Mr. Yang")	Corporate	221,310,000 (note)	—	221,310,000	44.55%
Mr. Xue De Fa	Beneficial owner	—	2,000,000	2,000,000	0.40%
Mr. Xie Xi	Beneficial owner	—	2,000,000	2,000,000	0.40%
Mr. Ng Kin Sun (resigned on 8 January 2007)	Beneficial owner	—	2,000,000	2,000,000	0.40%

Note:

These shares are registered in the name of and beneficially owned by Fu Teng Global Limited ("Fu Teng"), a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Yang.

Other than as disclosed above, none of the Directors or chief executive or any of their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2006.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of the Directors and chief executive, the following shareholders had notified the Company that they were interested in 5% or more of the issued share capital of the Company.

Long positions in shares of the Company

Name of shareholder	Type of interests	Capacity	Number of issued ordinary shares held	percentage of the issued shares capital of the Company
Fu Teng	Corporate	Beneficial owner	221,310,000 (note a)	44.55%
Ms. Yang Yunxian	Corporate	Interest of spouse	221,310,000 (note a)	44.55%
The SFP Asia Master Fund Ltd.	Corporate	Beneficial owner	42,486,000 (note b)	8.55%
The SFP Asia Fund Ltd.	Corporate	Interest of a controlled corporation	42,486,000 (note b)	8.55%
SFP Value Realization Co. Ltd.	Corporate	Investment manager	42,486,000 (note b)	8.55%
Mr. Cheah Cheng Hye	Corporate	Interest of a controlled corporation	38,093,081 (note c)	7.67%
Value Partners Limited	Corporate	Investment manager	38,093,081 (note c)	7.67%

Notes:

- Mr. Yang is the owner of the entire issued share capital of Fu Teng. Mr. Yang and his spouse, Ms. Yang Yunxian, are deemed to be interested in these 221,310,000 shares held by Fu Teng by virtue of the SFO.
- The SFP Asia Fund Ltd. interested in 79.5% of The SFP Asia Master Fund Ltd., while the entire issued share capital of The SFP Asia Fund Ltd. is wholly-owned by SFP Value Realization Co. Ltd. Accordingly, The SFP Asia Fund Ltd. and SFP Value Realization Co. Ltd. are deemed to be interested in these 42,486,000 shares held by The SFP Asia Master Fund Ltd. by virtue of the SFO.
- Mr. Cheah Cheng Hye is deemed to be interested in these 38,093,081 shares through his 35.65% interest in Value Partners Limited by virtue of the SFO.

On 4 May 2006, the Company entered into the warrant instrument with ABN AMRO Bank N.V., pursuant to which the Company agreed to issue and ABN AMRO Bank N.V. agreed to subscribe for the warrants conferring rights to subscribe up to 38,000,000 new ordinary shares of HK\$0.10 each in the Company, subject to adjustments, at an initial subscription price of HK\$0.88 per share, subject to adjustments, at any time from 21 May 2006 to 18 May 2009, both dates inclusive (the "Warrants").

The initial subscription price per share is HK\$0.88 (equivalent to approximately RMB0.880) as at the date of issue of the Warrants until 18 May 2007, and thereafter will be adjusted downward by the Company on the first anniversary of the date of issue of the Warrants. The adjusted subscription price will be such price in Hong Kong dollars as equals the market price of shares determined on the first anniversary of the date of issue of the Warrants, but in no case will be less than HK\$0.71 (equivalent to approximately RMB0.710).

No Warrants were exercised since the date of issue and up to 31 December 2006. Exercise in full of such Warrants would result in the issue of 38,000,000 additional ordinary shares of HK\$0.10 each in the Company.

Save as disclosed above, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as at 31 December 2006, which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and "Share option scheme" above, at no time during the period were given rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or chief executive, or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries, a party to any arrangement to enable the Directors, chief executives, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group obtained short-term fund from Fu Teng, a company in which Mr. Yang has entire interest, amounting to HK\$10,220,000 (equivalent to approximately RMB10,657,000) and repaid to Fu Teng, amounting to HK\$13,260,000 (equivalent to approximately RMB13,703,000). It is unsecured, interest-free and repayable on demand.

Pursuant to a tenancy agreement dated 1 November 2005 entered into between Mr. Yang as lessor and Fujian Fuwang Metal Products Co., Ltd., ("Fuwang") a wholly-owned subsidiary of the Company, as lessee, Fuwang agreed to lease an office unit from Mr. Yang for a term of three years from 1 December 2005 to 30 November 2008 at a monthly rental of RMB3,750. Rental paid by the Group under the tenancy agreement during the year amounted to RMB45,000.

In addition, as at 31 December 2006, a short-term bank loan of HK\$10,000,000 (equivalent to approximately RMB10,000,000) of the Group is secured by a pledged bank deposit of HK\$1,000,000 (equivalent to approximately RMB1,000,000) given by Mr. Yang.

Other than as disclosed above, no contracts of significance to which the Company, its holding company or any of its subsidiaries 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was approximately 29.6% of the Group's total turnover and the Group's largest customer accounted for approximately 9.5% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 73.7% of the Group's total purchases and the Group's largest supplier accounted for approximately 30.0% of the Group's total purchases.

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is formulated based on industry practices and performance of individual employees.

The emoluments of the Directors are decided, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the Directors and eligible employees, details of which are set out in note 31 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report.

POST BALANCE SHEET EVENT

Details of the significant event occurring after the balance sheet date are set out in note 34 to the consolidated financial statements.

AUDITOR

The financial statement of the Company for the years ended 31 December 2004 to 2006 were audited by Messers. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company. The Company has not changed its auditors in the preceding three years.

On behalf of the Board

Yang Zongwang

Chairman

Hong Kong, 12 April 2007