

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st December, 2006 are set out in the consolidated income statement on page 43.

An interim dividend of HK\$0.01 per share amounting to HK\$26,881,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK\$1 cent per share to the shareholders on the register of members on 20th June, 2007, amounting to HK\$26,881,000.

PROPERTY, PLANT AND EQUIPMENT

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

DISTRIBUTABLE RESERVE OF THE COMPANY

In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

As at 31st December, 2006 and 31st December, 2005, the Company had no reserves available for distribution to its shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 69% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 32% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 43% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 26% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors, owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

Directors' Report (Continued)

DIRECTORS

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

Executive directors:

Mr. Yao Yuan – Executive Chairman

Mr. Chien Hoe Yong, Henry – Chief Executive Officer

Mr. Hu Jun

Mr. Yu Ti Jun

Mr. Lu Chung

(appointed on 4th October, 2006)

Independent non-executive directors:

Dr. Lam Lee G.

Mr. Hu Jin Hua

Mr. Lee Sze Ho, Henry

In accordance with Bye-law 100 of the Company, Mr. Lu Chung appointed by the board after the conclusion of the last annual general meeting, will retire from office and, being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company.

In accordance with Bye-law 109 of the Company, Mr. Yu Ti Jun and Mr. Lee Sze Ho, Henry will retire from the office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

None of the directors 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

As at 31st December, 2006, the interests of the directors of the Company and their associates in the shares and share option 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, or as otherwise notified to the Company and to the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(1) Long positions

(a) Ordinary shares of HK\$0.05 each of the Company

Name of director	Capacity	Number of ordinary shares held	Percentage of the issued share capital of the Company
Mr. Yao Yuan	Held by controlled corporation	1,272,969,075 (Note (i))	47.36%
Mr. Lu Chung	Held by controlled corporation and beneficial owner	1,294,189,075 (Note (ii))	48.14%

Notes:

- (i) The shares were held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, which in turn is owned as to 50% and 50% by Mr. Yao Yuan and Mr. Lu Chung respectively.
- (ii) Being the aggregate personal interest of 21,220,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 1,272,969,075 shares.

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Chien Hoe Yong, Henry	Beneficial owner	26,500,000	26,500,000
Mr. Hu Jun	Beneficial owner	10,000,000	10,000,000
Mr. Yu Ti Jun	Beneficial owner	10,000,000	10,000,000

Details of the share options held by the directors are set out in the section headed "Share Options".

Other than as disclosed above, as at 31st December, 2006, none of the Company's directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations.

Directors' Report (Continued)

SHARE OPTIONS

Particulars of the share option scheme of the Company are set out in note 33 to the consolidated financial statements.

The following table discloses the movement of the Company's share options during the year:

Directors	Date of grant	Exercise price	Vesting period	Exercisable period	Number of share options				Outstanding at 31.12.2006
					Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Lapsed during the year	
Mr. Chien Hoe Yong, Henry	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	5,300,000	–	–	–	5,300,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	5,300,000	–	–	–	5,300,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	5,300,000	–	–	–	5,300,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	5,300,000	–	–	–	5,300,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	5,300,000	–	–	–	5,300,000
					26,500,000	–	–	–	26,500,000
Mr. Hu Jun	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	2,000,000	–	–	–	2,000,000
					10,000,000	–	–	–	10,000,000
Mr. Yu Ti Jun	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	2,000,000	–	–	–	2,000,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	2,000,000	–	–	–	2,000,000
					10,000,000	–	–	–	10,000,000
Total for directors					46,500,000	–	–	–	46,500,000
Employees									
Employees	8.4.2005	HK\$0.728	N/A	8.4.2005 – 7.4.2010	22,100,000	–	–	(4,000,000)	18,100,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	22,100,000	–	–	(4,000,000)	18,100,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	22,100,000	–	–	(5,200,000)	16,900,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	22,100,000	–	–	(5,200,000)	16,900,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	22,100,000	–	–	(5,200,000)	16,900,000
					110,500,000	–	–	(23,600,000)	86,900,000
Total for employees					110,500,000	–	–	(23,600,000)	86,900,000
Total for directors and employees					157,000,000	–	–	(23,600,000)	133,400,000

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option holdings disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow 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 debentures of the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding company, subsidiaries or fellow 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.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Future Ordinance shows that at 31st December, 2006, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

Name	Capacity	Number of shares	Notes	Shareholding percentage
Ming Yuan Investments Group Limited	Beneficial owner	1,272,969,075	(i)	47.36%
Ming Yuan Holdings Limited	Held by controlled corporation	1,272,969,075	(i)	47.36%
Mr. Yao Yuan	Held by controlled corporation	1,272,969,075	(i)	47.36%
Mr. Lu Chung	Beneficial owner and held by controlled corporation	1,294,189,075	(i) & (ii)	48.14%
International Factors (Singapore) Limited, First Capital Insurance Limited and Southern Bank Berhad (Singapore Branch)	Joint beneficial owners	585,000,000	(iii)	21.76%
Philip Assets Pte. Ltd.	Held by controlled corporation	585,000,000	(iii)	21.76%
Lim Hua Min	Held by controlled corporation	585,001,000	(iv)	21.76%
Highbridge International LLC	Beneficial owner	144,419,203	(v)	5.37%
Highbridge Master L.P.	Held by controlled corporation	144,419,203	(v)	5.37%
Highbridge Asia Opportunities Master L.P.	Beneficial owner and held by controlled corporation	215,135,946	(vi)	8.00%
Highbridge G.P., Ltd.	Held by controlled corporation	215,135,946	(vi)	8.00%
Clive Harris	Held by controlled corporation	215,135,946	(vi)	8.00%
Richard Crawshaw	Held by controlled corporation	215,135,946	(vi)	8.00%

Notes:

- (i) The shares were held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, which in turn is owned as to 50% and 50% by Mr. Yao Yuan and Mr. Lu Chung respectively.
- (ii) Being the aggregate of personal interest held by Mr. Lu Chung of 21,220,000 shares and the corporate interest held by Ming Yuan Investments Group Limited of 1,272,969,075 shares.
- (iii) The 585,000,000 shares were jointly held by International Factors (Singapore) Limited, First Capital Insurance Limited and Southern Bank Berhad (Singapore Branch). Phillip Assets Pte. Ltd. held 39.7% interest in International Factors (Singapore) Limited and accordingly, Phillip Assets Pte. Ltd. were deemed to be interested in 585,000,000 shares. Lim Hua Min owned 85% interest in Phillip Assets Pte. Ltd..
- (iv) Being the aggregate corporate interest of 585,000,000 shares held by Phillip Assets Pte. Ltd. and 1,000 shares held by Phillip Securities (Hong Kong) Limited which is a company Lim Hua Min owns 85% interest. Accordingly, Lim Hua Min were deemed to be interested in 585,001,000 shares.

Directors' Report (Continued)

- (v) The 144,419,203 shares were held by Highbridge International LLC, a wholly owned subsidiary of Highbridge Master L.P. which in turn a wholly-owned subsidiary of Highbridge Asia Opportunities Master L.P..
- (vi) Being aggregate corporate interest of 144,419,203 shares held by Highbridge International LLC and 70,716,743 shares held by Highbridge Asia Opportunities Master L.P. Highbridge Asia Opportunities Master L.P. is a wholly-owned subsidiary of Highbridge GP Ltd. which in turn is owned as to 50% and 50% by Clive Harries and Richard Crawshaw respectively. Accordingly, Highbridge Asia Opportunities Master L.P., Highbridge GP Ltd. , Clive Harries and Richard Crawshaw were deemed to be interested in 215,135,946 ordinary shares in the Company.

Save as disclosed above, the Company had not been notified of any other relevant interests representing 5 percent or more in the issued share capital of the Company as at 31st December, 2006.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

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

The emoluments of the directors of the Company are decided by the Remuneration Committee, 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 directors and eligible employees, details of the scheme are set out in note 33 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of the subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 its existing shareholders.

AUDITOR

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

On behalf of the Board

Mr. Yao Yuan

Executive Chairman

27th March, 2007