

REPORT OF THE DIRECTORS

The Directors hereby submitting the annual report and the audited financial statements for the financial year ended 31 December 2005.

PRINCIPAL BUSINESS ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set forth in note 16 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2005 are set forth in the consolidated income statement on page 33.

The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2005.

FIVE YEARS 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 118.

RESERVES

Details of movement in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

FIXED ASSETS

Particulars of the movements during the financial year in fixed assets of the Group are set forth in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 26 to the financial statements.

DIRECTORS

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

Executive Directors:-

Mr. LIM Wa
Mr. LAM Cham
Mr. LI Xiao Ning
Mr. DING Ming Shan

Independent non-executive Directors:-

Professor XIAO Zhuo Ji
Dr. WONG Lung Tak, Patrick, J.P.
Mr. CHAN Kin Sang

In accordance with the provisions of the Articles, all Directors, except for Mr. LIM Wa, who is the Chairman of the Group, shall retire at the forthcoming annual general meeting of the Company and shall be eligible for re-election.

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

Each of the executive Directors entered into a service contract with the Company for a fixed term of three years commencing from 19 June 2004. There is no specific clause in all the service contracts providing for the amount of compensation in case of early termination.

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

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES

As at 31 December 2005, the interests of the Directors and chief executives in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to

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section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:-

Long positions in the Shares

Name of Directors	Nature of interest and capacity	Total number of the Shares	Approximate percentage of interest
Mr. LIM Wa	Corporate (a)	504,200,000	63.03%
Mr. LAM Cham	Corporate (b) Personal	56,000,000 200,000	7.00% 0.03%

(a) Aswell Group Limited ("Aswell Group") is wholly-owned by Mr. LIM Wa. Accordingly, Mr. LIM Wa is taken to be interested in the Shares held by Aswell Group.

(b) Best Key Investments Limited ("Best Key") is wholly-owned by Mr. LAM Cham. Accordingly, Mr. LAM Cham is taken to be interested in the Shares held by Best Key.

All the interests stated above represented long positions. As at 31 December 2005, the Directors and chief executives had no short positions recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTIONS

A share option scheme (the "**Share Option Scheme**") was adopted pursuant to a written resolution of the then Shareholders passed on 18 September 2004.

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of any member of the Group (the "**Participants**") and for such other purposes as the Board may approve from time to time.

The Share Option Scheme will remain in force for a period of 10 years commencing on 18 September 2004, being the date on which the Share Option Scheme was adopted.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue on 12 October 2004, unless the Company obtains a fresh approval from the Shareholders.

Notwithstanding any other provisions of the Share Option Scheme, the maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

Unless approved by the Shareholders, the total number of the Shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

Offer of an option ("**Offer**") shall be deemed to have been accepted by any Participant (the "**Grantee**") who accepts an Offer in accordance with the terms of the Share Option Scheme and the option to which the Offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the Offer duly signed by the Grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the granting thereof is received by the Company within such period as the Board may determine and specify in the Offer.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by the Board at its absolute discretion and notified by the Board to each Grantee as being the period during which such option may be exercised and in any event, such period shall not be longer than 10 years from the date of offer (the "**Option Period**"). An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the Option Period.

The subscription price for the Shares under the Share Option Scheme will be at least the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made by the Company to the Grantee (which date must be a business day, "**Offer Date**"); (b) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Offer Date; and (c) the nominal value of the Share.

As at 31 December 2005, no option has been granted under the Share Option Scheme.

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Another share option scheme (the “**Pre-IPO Share Option Scheme**”) was adopted pursuant to a written resolution of the then Shareholders passed on 18 September 2004 for the primary purpose of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to our directors and employees and for such other purposes as the Board may approve from time to time.

The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except that:–

- (i) the subscription price for each Share subject to the options granted under the Pre-IPO Share Option Scheme shall be the offer price of HK\$1.23 for each Share;
- (ii) the total number of the Shares subject to the Pre-IPO Share Option Scheme shall not exceed 64,000,000 Shares; and
- (iii) save for the options which have been granted, no further options will be offered or granted, as the right to do so will end upon the listing of the Company.

As at 31 December 2005, the number of Shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 64,000,000, representing 8% of the Shares in issue at that date and approximately 7.41% of the enlarged number of shares in issue upon full exercise of the options granted under the Pre-IPO Share Option Scheme.

Details of the outstanding share options as at 31 December 2005 which were granted under the Pre-IPO Share Option Scheme are as follows:–

	Date of grant	Number of option Shares		
		Granted during the financial year	Exercised during the financial year	Outstanding at 31 December 2005
Mr LAM Cham	18 September 2004	6,000,000	–	6,000,000
Mr DING Ming Shan	18 September 2004	3,200,000	–	3,200,000
Mr LI Xiao Ning	18 September 2004	3,200,000	–	3,200,000
Other senior management staff and employees	18 September 2004	51,600,000	–	51,600,000
Total		64,000,000	–	64,000,000

The exercise price of each option is HK\$1.23. Each of the grantees to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise (i) 20% of the options so granted at any time after the expiry of 12 months from the listing date, (ii) a further 20% of the options so granted at any time after the expiry of 24 months from the listing date, (iii) a further 20% of the options so granted at any time after the expiry of 36 months from the listing date, (iv) a further 20% of the options so granted at any time after the expiry of 48 months from the listing date, and (v) the remaining options at any time after the expiry of 60 months from the listing date and, in each case, not later than six years from the listing date.

The share options granted are not recognized in the financial statements until they are exercised. The Directors consider it is not appropriate to disclose the value of the share options granted during the period under the Share Option Scheme since any valuation of the share options would be subject to a number of assumptions that would be subjective and uncertain. The Directors believe that the evaluation of share options based upon speculative assumptions would not be meaningful and would be misleading.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

CONNECTED TRANSACTIONS

During the financial year, the following continuing connected transactions (the “**Connected Transactions**”) have been entered into by members of the Group to which the Stock Exchange has granted waiver to the Company from strict compliance with the announcement and/or independent shareholders’ approval requirements under Chapter 14A of the Listing Rules:

Leasing of oil tanks from Jiangsu Zheng Feng Oils and Fats Storage Co., Ltd. (“Jiangsu Zheng Feng”)

Jiangsu Zheng Feng is a sino-foreign co-operative joint venture enterprise established in the PRC and is principally engaged in the provision of oil storage services. The registered share capital of Jiangsu Zheng Feng is owned as to (i) 88.52% by China Force Storage (H.K.) Company Limited which is effectively owned as to 83.05% and 14.50% by Mr. Lim Wa and Mr. Lam Cham respectively; and (ii) 11.48% by Zhenjiang Jing Kou District Agriculture Industrial and Commerce Co., Ltd., an independent third party.

Pursuant to a lease agreement (the “**Oil Tanks Lease Agreement**”) entered into between China Force Oils & Grains Industrial (Zhengjiang) Co., Ltd. (“**China Force (Zhengjiang)**”) and Jiangsu Zheng Feng on 24 December 2003, China Force (Zhengjiang) agreed to use the 15 oil tanks owned by Jiangsu Zheng Feng for a period from 1 January 2004 to 31 December 2006 at an annual rental of RMB2.86 million (equivalent to HK\$2.70 million). The rental amount was determined with reference to the rates of rental charged by other independent third parties from whom the Group leases oil tanks. The Directors confirm that such leasing of oil tanks were conducted on the normal commercial terms and in the ordinary course of business.

During the financial year, the Group paid storage usage fee of HK\$2.70 million to Jiangsu Zheng Feng in accordance with the Oil Tanks Lease Agreement, which did not exceed the annual cap of HK\$2.70 million for the financial year.

The Directors confirm that the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with by the Company.

The related party transactions were disclosed in the note 31 to the financial statements. All such related party transactions fall under the scope of “continuing connected transaction” in Chapter 14A of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, as far as known to the Directors, the following persons (other than the Directors or chief executives of the Company) who had 5% or more interests in the shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:-

Long position in the Shares

Name of shareholders	Nature of interest and capacity	Approximate total number of shares held	Percentage of interest
Aswell Group	Corporate (a)	504,200,000	63.03%
Best Key	Corporate (b)	56,000,000	7.00%

Notes:-

(a) Aswell Group is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. LIM Wa.

(b) Best Key is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. LAM Cham. Mr. LAM Cham is also interested in 200,000 shares held in his name and is interested in 6,000,000 shares subject to the options granted to him.

All the interests stated above represented long positions. As at 31 December 2005, the substantial Shareholders had no short positions recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the CG Code as set out in Appendix 14 to the Listing Rules except with deviations from the code provisions A.1.3, A.2.1 and A.4.1, details of which and other further information on the Company's corporate governance practices are set out in the Corporate Governance Report on pages 13 to 17.

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COMPETING BUSINESS INTERESTS OF DIRECTORS

None of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Shares by the Company or any of its subsidiaries during the financial year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles although there are no restrictions against such rights under the laws in the Cayman Islands.

EMPLOYEES

As at 31 December 2005, the total number of employees of the Group was approximately 698. The Group ensures that the remuneration packages of its employees are competitive according to market trends and its employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:-

Purchases

- the largest supplier 9.8%
- five largest suppliers combined 38.5%

Sales

- the largest customer 4.5%
- five largest customers combined 17.5%

None of the Directors, their associates or any Shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 32 to the financial statements.

AUDITORS

The accounts have been audited by KPMG who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

LIM Wa

Chairman

24 April 2006