

The Directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2005.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in the Cayman Islands on 23 December 2003. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 6 January 2004. Details of the reorganisation are set out in note 1 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 29 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement.

The Directors now recommend the payment of a final dividend of HK\$0.0075, approximately RMB0.00776, per share (2004: HK\$0.025, approximately RMB0.0266, per share) to the shareholders on the register of members on 9 June 2006, amounting to HK\$3,000,000, approximately RMB3,104,000 (2004: HK\$10,000,000, amounting to RMB10,637,000), and the retention of the remaining profit for the year of approximately RMB6,365,000.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 22 to the financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

The Company's reserves available for distribution to shareholders amounted to approximately RMB105,714,000 (2004: approximately RMB108,404,000).

DIRECTORS

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

Executive Directors

Mr. Sun Lianggui, *Chairman*
Mr. Wang Zhaobo
Ms. Sun Xianfang
Mr. Wang Jiaqing
Mr. Zhou Zhongdong

Independent non-executive Directors

Mr. Hung, Randy King Kuen
Mr. Wang Yuechao
Mr. Wei Zhiqiang

In accordance with Article 87(1) of the Company's articles of association ("Articles of Association"), Mr. Wang Zhaobo, Mr. Wang Jiaqing and Mr. Hung, Randy King Kuen will retire from office as Directors at the forthcoming annual general meeting and being eligible offer themselves for re-election.

The Company confirms that it has received from each of its 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 ("Listing Rules") and the Company considers the independent non-executive Directors to be independent.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 12 of this Annual Report.

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 27 July 2004, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The current basic annual salaries of the executive Directors are as follows:

Mr. Sun Lianggui	RMB600,000
Mr. Wang Zhaobo	RMB360,000
Ms. Sun Xianfang	RMB360,000
Mr. Wang Jiaqing	RMB360,000
Mr. Zhou Zhongdong	RMB360,000

Each of the independent non-executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 27 July 2004, and will continue thereafter until terminated by not less than two months' notice in writing served by either party on the other. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

Save as aforesaid, none of the Directors 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 the payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares and underlying shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

Ordinary shares of HK\$0.1 each of the Company

Name of Directors	Capacity	Number of shares held (Long Position)	Approximate percentage of the issued share capital of the Company	Notes
Mr. Sun Lianggui	Interest of a controlled corporation	182,216,113	45.6%	1
Mr. Wang Zhaobo	Interest of a controlled corporation	46,855,572	11.7%	2
Ms. Sun Xianfang	Interest of a controlled corporation	15,618,524	3.9%	3
Mr. Wang Jiaqing	Interest of a controlled corporation	15,618,524	3.9%	4

Report of the Directors

Notes:

1. These shares are held by Apex Faith Management Limited, a British Virgin Islands (“BVI”) company wholly-owned by Sun Lianggui.
2. These shares are held by South Honour Developments Limited, a BVI company wholly-owned by Wang Zhaobo.
3. These shares are held by Clear Honour Investments Limited, a BVI company wholly-owned by Sun Xianfang.
4. These shares are held by Time Prosper Investments Limited, a BVI company wholly-owned by Wang Jiaqing.

Save as disclosed above, at 31 December 2005, none of the Directors and chief executives of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading “Directors’ and chief executives’ interests in shares and underlying shares” above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

DIRECTORS’ INTERESTS IN CONTRACTS

No Director during the year had a beneficial interest, either direct or indirect, in any significant contract to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, save as disclosed in the paragraph headed “Directors’ and chief executives’ interests in shares and underlying shares” above, the Company had not been notified of any other persons (other than a Director and chief executive of the Company) who had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2005	2004
	%	%
Percentage of purchases:		
From the largest supplier	47.4%	23.6%
From the five largest suppliers	80.0%	44.7%
Percentage of turnover:		
From the largest customer	34.1%	19.0%
From the five largest customers	74.5%	62.8%

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers nor the five largest suppliers.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2005, the Group had 151 employees (2004: 113), most of whom are based in the head office of the Group in Qingdao City of Shandong Province in the PRC. The number of workers employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for year ended 31 December 2005 was RMB15,317,000 (2004: RMB7,934,000).

RETIREMENT BENEFIT PLANS

The employees of the Group in the PRC participate in a central pension scheme operated by the local municipal government, whereby the Group and its employees are required to make contributions to the plan. The Group currently pays 20% of the basic salaries of the employees and its employees pay 8% of their basic salaries to the plan. Expenses incurred by the Group in connection with the retirement benefit plans were approximately RMB1,025,000 for the year ended 31 December 2005 (2004: RMB512,000).

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK\$1,000 by each of the employee and the Group) on a monthly basis to the fund.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 27 July 2004 under which the Directors may, at their discretion, grant options to employees, including any Directors or their subsidiaries to subscribe for shares of the Company, subject to the terms and conditions stipulated therein. The details of the share option scheme are set out in note 23 to the financial statements. As at the date of this report, the Company had not granted any option under the share option scheme.

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 in existing during the year.

CONNECTED TRANSACTIONS

During the year, the Group had no transactions with related parties.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S SECURITIES

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with such code of conduct throughout the year ended 31 December 2005.

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital are held by the public at all times from 1 January 2005 up to the date of this report.

PRE-EMPTIVE RIGHTS

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

POST BALANCE SHEET EVENTS

There have not been any significant events occurred after the balance sheet date.

AUDITORS

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

On behalf of the Board

Sun Lianggui

Chairman

Hong Kong, 21 April 2006