

The directors present their report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2005

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are set out in note 21 to the financial statements.

During the year ended 31 December 2005, the Group principally carried out its operation through 河北壩上林木種苗有限公司 (Hebei Bashang Nursery Company Limited), its 70% owned subsidiary.

## **FINANCIAL RESULTS**

The results for the Group for the year ended 31 December 2005 are set out in the financial statements of the Group on pages 31 to 90.

## **CASH FLOW POSITION**

The cash flow position of the Group for the year ended 31 December 2005 is set out and analysed in the consolidated cash flow statement on pages 35 and 36.

## **DIVIDEND**

The directors of the Company have resolved not to declare any dividend (2004: Nil).

## **FIVE-YEAR FINANCIAL SUMMARY**

A summary of the results, assets and liabilities of the Group for the current year and the last four financial year is set out on pages 3 and 4.

## **RESERVES**

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 33 and 34.

Movement in the reserves of the Company during the year are set out in note 29 to the financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

The movements of the property, plant and equipment of the Group for the year ended 31 December 2005 are set out in note 15 to the financial statements.

## **SUBSIDIARIES**

Particulars of the subsidiaries are set out in note 21 to the financial statements.

## **MAJOR SUPPLIERS AND CUSTOMERS**

In the year under review, sales to the Group's five largest customers accounted for approximately the total sales for the year and sales to the largest customer included therein amounted to approximately 70%. The largest supplier accounted for approximately 67% of the total purchases for the year.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has any interest in the share capital of the five largest customers or the largest supplier of the Group.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of the Company's share capital and share options as of 31 December 2005 are set out in notes 28(a) and 28(b) to the financial statements respectively.

The Company has adopted a share option scheme on 21 June 2002 (the "Scheme"). No options have been granted under the Scheme during the year ended 31 December 2005.

Details of the share options outstanding as at 31 December 2005 under the Scheme are set out in note 28(b) to the financial statements.

During the year ended 31 December 2005, none of the above share options had been exercised. Accordingly, the weighted average closing price of the shares immediately before the dates on which the share options were exercised is not disclosed herein.

The directors consider that it is not appropriate to state the value of the outstanding share options given that the variables which are critical for the calculation of the value of such outstanding share options cannot be determined. The variables which are critical for the determination of the value of such share options include the subscription price for the shares upon the exercise of the subscription rights attaching to the share options, which may be adjusted under certain circumstances, and whether or not such share options will be exercised by the grantees. The directors are of the view that the value of the share options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions, and accordingly, believe that any calculation of the value of the share options will not be meaningful.

## DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

### Executive directors:

Mr. Zhou Wenjun ( <i>Chairman</i> )	(appointed on 12 April 2006)
Mr. Ji Kewei ( <i>Deputy Chairman and Chief Executive Officer</i> )	(appointed on 12 April 2006)
Mr. Ding Jiangyong	(appointed on 31 October 2005)
Mr. Dai Jun	(appointed on 12 April 2006)
Mr. Sun Kejun	(appointed on 12 April 2006)
Mr. Jiang Guoan	(appointed on 31 October 2005 and resigned on 12 April 2006)
Dr. Cheng Chuange	(appointed on 31 October 2005 and resigned on 12 April 2006)
Ms. Zhao Ping	(appointed on 31 October 2005 and resigned on 12 April 2006)
Mr. Gong Zeng Li	(appointed on 30 December 2005 and resigned on 12 April 2006)
Mr. Ho Kit Man	(appointed on 31 October 2005 and resigned on 30 December 2005)
Mr. Lau Man Kin	(appointed on 29 July 2005 and resigned on 30 December 2005)
Mr. Shen Jiantai	(appointed on 31 October 2005 and resigned on 15 December 2005)
Mr. Yu Chinshih	(appointed on 7 September 2005 and resigned on 31 October 2005)
Mr. Zhang Xiaoxiong	(appointed on 31 March 2005 and resigned on 15 July 2005)
Mr. Huang Jianhua	(resigned on 26 August 2005)
Mr. Han Jide	(resigned on 26 August 2005)
Dr. Qian Keming	(resigned on 29 July 2005)
Dr. Hon Fong Ming, Perry	(resigned on 31 March 2005)
Mr. Zhang Jiebin	(resigned on 31 March 2005)

### Non-executive director:

Mr. Qin Qing Yun	(appointed on 31 March 2005 and resigned on 26 August 2005)
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**Independent non-executive directors:**

Mr. So Hoi Pan, Edinson	(appointed on 12 April 2006)
Mr. Yim Hing Wah	(appointed on 12 April 2006)
Mr. Zhao Wen	(appointed on 12 April 2006)
Ms. Lee Chunxiu	(appointed on 1 November 2005 and resigned on 12 April 2006)
Mr. Chen Bin	(appointed on 7 September 2005 and resigned on 12 April 2006)
Mr. Qin Li	(appointed on 7 September 2005 and resigned on 12 April 2006)
Mr. Chu Cheong Kit, Raymond	(appointed on 9 September 2005 and resigned on 31 October 2005)
Mr. Chan Kam Man	(appointed on 26 August 2005 and resigned on 6 September 2005)
Mr. Ng Wing Hang, Patrick	(appointed on 14 July 2005 and resigned on 6 September 2005)
Mr. Chan Chung Yin, Victor	(appointed on 14 July 2005 and resigned on 6 September 2005)
Mr. Zhao Cai Yuan	(appointed on 31 March 2005 and resigned on 26 August 2005)
Ms. Lau Ha	(appointed on 31 March 2005 and resigned on 15 July 2005)
Mr. Huang San Xing	(resigned on 26 August 2005)
Mr. Yu Enguang	(resigned on 31 March 2005)
Professor Ma Qingguo	(resigned on 31 March 2005)

In accordance with bye-law 102(B) of the bye-laws of the Company, Mr. Zhou Wenjun, Mr. Ji Kewei, Mr. Dai Jun, Mr. Sun Kejun, Mr. So Hoi Pan, Edinson, Mr. Yim Hing Wah and Mr. Zhao Wen will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 31 December 2005, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") or which were required to be entered in the register required to be kept by the Company under section 352 of the SFO.

**DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO**

So far as is known to the directors of the Company, as at 31 December 2005, the persons or companies (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of 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 were as follows:

**Long position in the shares of the Company**

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Percentage of shareholding</b>
Chinabond International Investment Limited	Beneficial owner	530,530,000	20.95%
Concord Group (B.V.I.) Limited	Interest of a controlled corporation	530,530,000 <i>(Note 1)</i>	20.95%
Legend (Group) Investment Limited	Interest of a controlled corporation	530,530,000 <i>(Note 1)</i>	20.95%
China Wallink Holding Group Co., Ltd.	Interest of a controlled corporation	530,530,000 <i>(Notes 1 and 2)</i>	20.95%
Evertop Investment Holdings Limited	Interest of a controlled corporation	530,530,000 <i>(Note 1)</i>	20.95%
Mr. Ji Da Wei	Interest of a controlled corporation	530,530,000 <i>(Notes 1 and 3)</i>	20.95%
China Huaxing (HK) International Company Limited	Interest of a controlled corporation	530,530,000 <i>(Note 1)</i>	20.95%
China Huaxing Group Company	Interest of a controlled corporation	530,530,000 <i>(Notes 1 and 4)</i>	20.95%
Mr. Chen Xin	Beneficial owner	430,000,000	16.98%
Mr. Chan Hung Shek	Beneficial owner	334,000,000	13.19%

## Notes:

1. Chinabond International Investment Limited (“Chinabond”) was a wholly-owned subsidiary of Concord Group (B.V.I.) Limited (“Concord Group”) in which Legend (Group) Investment Limited (“Legend”), Evertop Investment Holdings Limited (“Evertop”) and China Huaxing (HK) International Company Limited (“Huaxing (HK)”) hold as to 33%, 34% and 33% respectively. Accordingly, Concord Group, Legend, Evertop and Huaxing (HK) were deemed to be interested in 530,530,000 shares held by Chinabond under the SFO.
2. Legend was 99% owned by China Wallink Holding Group Co., Ltd. Accordingly, China Wallink Holding Group Co., Ltd. was deemed to be interested in 530,530,000 shares held by Chinabond under the SFO.
3. Evertop was wholly beneficially owned by Mr. Ji Da Wei. Accordingly, Mr. Ji Da Wei was deemed to be interested in 530,530,000 shares held by Chinabond under the SFO.
4. Huaxing (HK) was 98% owned by China Huaxing Group Company. Accordingly, China Huaxing Group Company was deemed to be interested in 530,530,000 shares held by Chinabond under the SFO.

Save as disclosed above, as at 31 December 2005, the Company had not been notified by any persons or companies (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of 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.

## **DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed herein, at no time during the year ended 31 December 2005 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company, its subsidiaries or any other body corporate; and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

## **DIRECTORS’ INTERESTS IN CONTRACTS**

No contracts of significance in relation to the Group’s businesses to which the 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.

## **DIRECTORS’ SERVICE CONTRACTS**

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries not determinable by the employer 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 businesses of the Company were entered into or existed during the year.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the year under review, neither the Company nor any of its 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 oblige the Company to offer new shares on a pro-rata basis to existing shareholders. Such obligations are provided for in the Listing Rules.

## **CORPORATE GOVERNANCE**

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 13 to 19.

## **AUDIT COMMITTEE**

The current audit committee of the Company currently comprises Mr. So Hoi Pan, Edinson, Mr. Yim Hing Wah and Mr. Zhao Wen who are independent non-executive directors of the Company. The audit committee has reviewed the audited financial statements of the Company for the year ended 31 December 2005.

## **INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received from each of the independent non-executive directors confirmation of his/her independence to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the independent non-executive directors and is satisfied with their independence.

## **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that at least 25% of the total issued share capital of the Company was held by the public as at the date this report.

## **AUDITORS**

The financial statements for the year ended 31 December 2003 were audited by Ernst & Young. Ernst & Young resigned as auditors of the Company with effect from 8 April 2005 and CCIF CPA Limited were appointed as auditors of the Company on 12 April 2005. The audited financial statements for the years ended 31 December 2004 and 2005 were audited by CCIF CPA Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Zhou Wenjun**

*Chairman*

27 April 2006