

Directors' Report

The Directors present the annual report and the audited consolidated financial statements 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 15 to the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 32.

An interim dividend of HK 1 cent per ordinary share amounting to HK\$10,375,000 was paid to the shareholders during the year.

The final dividend of HK 4.33 cents (2005: Nil) per ordinary share has been proposed by the Directors and is subject to approval by shareholders in the forthcoming annual general meeting of the Company ("AGM").

14

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2006, amounted to approximately RMB448,465,000 (2005: Nil).

FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group for each of the four years ended 31 December 2006 is set on page 4.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 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. Yu Longrui (*Chairman and Chief Executive Officer*)

Mr. Zheng Feng

Mr. Chan Wai Chuen

Ms. Yang Yahua

Mr. Yeung Shing

Independent Non-executive Directors

Mr. Zheng Qingchang

Mr. Yu Lun

Mr. Yun Lok Ming

In accordance with the Article 112 of the articles of association of the Company (the "Articles of Association"), Messrs. Mr. Yu Longrui, Mr. Zheng Feng and Mr. Yu Lun shall retire at the forthcoming annual general meeting of the Company ("AGM") and, being eligible, will offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of independent non-executive Directors to be independent.

Each of the independent non-executive Directors was appointed for a period commencing from his appointment date and subject to retirement by rotation at the annual general meeting.

None of the Directors proposed for re-election at the forthcoming AGM has service contract with the Company or any of its subsidiaries not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND SHARE OPTIONS

As at 31 December 2006, the interests and short positions of the directors of the Company in the shares of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Positions or Short Positions in Ordinary Shares of the Company:

Name of Directors	Capacity	Interest in shares as at 31 December 2006			Interest in underlying shares pursuant to share option as at 31 December 2006	Aggregate interest as at 31 December 2006	Approximate percentage of issued share capital of the Company as at 31 December 2006
		Personal interest	Corporate interest	Total			
Yu Longrui	Beneficial owner	11,572,000	500,400,000 <i>(Note)</i>	511,972,000	Nil	511,972,000	49.35%
Yang Yahua	Beneficial owner	-	500,400,000 <i>(Note)</i>	500,400,000	Nil	500,400,000	48.23%

Note: These 500,400,000 ordinary shares are held by Daba International Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to 77.6%, 6.86%, 5.49%, 4.57%, 2.74% and 2.74% by Mr. Yu Longrui, Mr. Yu Longhui, Ms. Yang Yahua, Mr. Yu Qiang, Mr. Yang Minyong and Mr. Mo Kaifei respectively.

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Interest in Options to Subscribe for Shares

Pursuant to the Company's share option schemes, the Company has granted to certain directors options to subscribe the shares, details of which as at 31 December 2006 were as follows:

Name of directors	Date of grant	Exercise period	Exercise price HK\$	Number of shares subject to outstanding options at 1 January 2006	Number of shares subject to outstanding options at 31 December 2006	Approximate percentage of issued share capital of the Company at 31 December 2006
Zheng Feng	14.11.2006	01.07.2007–31.12.2009	1.26	–	836,000	0.08%
	14.11.2006	01.07.2008–31.12.2010	1.26	–	832,000	0.08%
	14.11.2006	01.07.2009–31.12.2011	1.26	–	832,000	0.08%
Chan Wai Chuen	14.11.2006	01.07.2007–31.12.2009	1.26	–	1,280,000	0.12%
	14.11.2006	01.07.2008–31.12.2010	1.26	–	1,260,000	0.12%
	14.11.2006	01.07.2009–31.12.2011	1.26	–	1,260,000	0.12%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. These options represent personal interest held by the relevant directors as beneficial owners.
3. During the year, 6,300,000 options were granted to the directors, no option was exercised by the directors and no options held by the directors was lapsed or cancelled.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any director of the Company, as at 31 December 2006, other than the interests of the directors of the Company as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall 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.

Name of Shareholders	Number of ordinary shares held as at 31 December 2006	Approximate percentage of the Company's issued share capital as at 31 December 2006
Daba International Investments Limited	500,400,000 (<i>Note 1</i>)	48.23%
Kenwell Enterprise Corp.	139,600,000 (<i>Note 2</i>)	13.46%
Li Xundeng	139,600,000 (<i>Note 2</i>)	13.46%
Chartered Asset Management Pte Limited	125,140,000	12.06%
CAM-GTF Limited	64,972,000	6.26%
Atlantis Investment Management Limited	62,496,000	6.02%

Notes:

- 1 Daba International Investments Limited is beneficially owned by Mr. Yu Longrui, Mr. Yu Longhui, Ms. Yang Yahua, Mr. Yu Qiang, Mr. Yang Minyong and Mr. Mo Kafei as to 77.6%, 6.86%, 5.49%, 4.57%, 2.74% and 2.74% respectively. Mr. Yu Longrui is the spouse of Ms. Yang Yahua, brother of Mr. Yu Longhui and Mr. Yu Qiang, brother-in-law of Mr. Yang Minyong and uncle of Mr. Mo Kaifei.
- 2 Kenwell Enterprise Corp., a company incorporated in the British Virgin Islands with limited liability, is wholly owned by Mr. Li Xundeng.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2006, were entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

SHARE OPTIONS

On 14 April 2006, the Company adopted a share option scheme (the "Scheme") in providing incentives and rewards to eligible participants who have contributed to the success of the Group's operation. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the Company's shareholders. The Scheme will remain in force for 10 years from the date of adoption.

Directors' Report

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

As at the date of this report, a total of 33,300,000 options (representing approximately 3.21% of the existing issued share capital of the Company at the date of this annual report) has been granted or committed to be granted pursuant to the Scheme.

Additional information in relation to the Company's share option schemes is set out in note 23 to the financial statements.

The following table discloses movements in the Company's share option during the year:

	Outstanding at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2006
Category 1: Directors					
Zheng Feng	–	2,500,000	–	–	2,500,000
Chan Wai Chuen	–	3,800,000	–	–	3,800,000
Total for Directors	–	6,300,000	–	–	6,300,000
Category 2: Employees	–	7,600,000	–	–	7,600,000
Category 3: Suppliers	–	9,400,000	–	–	9,400,000
Category 4: Consultant	–	10,000,000	–	–	10,000,000
All categories	–	33,300,000	–	–	33,300,000

Details of specific categories of share options are as follows:

Option types	Date of grant	Exercise period	Exercise price HK\$
2009	14.11.2006	01.07.2007–31.12.2009	1.26
2010	14.11.2006	01.07.2008–31.12.2010	1.26
2011	14.11.2006	01.07.2009–31.12.2011	1.26

Directors' Report

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The closing price of the Company shares immediately before 14 November 2006 the date of grant of the 2006 option was HK\$1.06.
3. During the year, 33,300,000 options were granted under the option scheme. The estimated fair value of the options granted on the date is approximately HK\$0.13, HK\$0.16 and HK\$0.19 per option for option 2009, 2010 and 2011 respectively.
4. During the year, no options were lapsed or cancelled under the share option scheme.
5. The fair value of the options granted under the option scheme in the current period measured at the date of grant (14 November 2006) totalled approximately HK\$5,298,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected volatility:	53.23% p.a.
Expected dividend yield:	5.07% p.a.
Expected life:	3.13, 4.13 and 5.13 years for option 2009, 2010 and 2011 respectively
Risk free interest rate:	3.72%, 3.75% and 3.78% (being the yield of 3-, 4-, and 5-year exchange fund note by the Hong Kong Monetary Authority as at the Grant Date) for option 2009, 2010 and 2011 respectively
Rate of leaving service:	Nil

The binomial lattice model was applied to deriving the fair value of the option.

All the option forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

Based on the closing price of shares on the date of grant and above assumptions, the estimated fair value under the options granted during the year was approximately HK\$0.13, HK\$0.16 and HK\$0.19 per option share for option 2009, 2010 and 2011 respectively.

ARRANGEMENTS TO PURCHASE SHARES

Other than the share option schemes disclosed above, at no time during the year ended 31 December 2006 was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate, and none of the directors or the chief executive or any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or exercised any such right.

DIRECTORS' SERVICE CONTRACT

There is no unexpired directors' service contract that is not terminable by the Company within one year of any Director proposed for re-election at forthcoming AGM.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed, no contract of significance to which the Company or any related company (holding companies, 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 year or at any time during the year.

EMPLOYEES AND REMUNERATION POLICIES

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

The emoluments of the Directors are decided by the Remuneration Committee with regard to the Company's operating results, individual performance and comparable market statistics. None of the directors or any of their associates, and executive is involved in deciding his own remuneration.

As at 31 December 2006, the Group had approximately 630 employees, an increase of approximately 9% from a year ago. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibilities. Moreover, the Group provides its employees with training and various benefits including medical welfare, provident funds, bonuses and other incentives. The Group also encourages employees to pursue a balanced lifestyle and provided them with a good working environment to realize their maximum potential and contribution to the Group.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes is set out in note 23 to the consolidated financial statements and under the heading "Share Options" in the Director's Report of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2006.

CORPORATE GOVERNANCE

The Group continues to achieve high standards of corporate governance, which it believes is crucial to the development of the Group and to safeguarding the interests of the Company's shareholders.

The Company has also taken effective measures to ensure that it is in compliance with the code provisions and as far as reasonably the recommended best practices in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules. In the opinion of the Board, the Company had also fully complied with the code provisions of the Code for the year ended 31 December 2006.

In compliance with the code provisions of the Code, the Company had set up an Audit Committee and a Remuneration Committee under the Board.

Directors' Report

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that for the year ended 31 December 2006, all Directors had complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in accordance with the requirements of the Code and Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors. The members of the Audit Committee are Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. The Audit Committee meets regularly with the Company's senior management and auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management. Mr. Zheng Qingchang is the chairman of the Audit Committee.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the Code. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The Remuneration Committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to the board of Directors on appointment of Directors and management of the succession of the board of Directors. The Nomination Committee has three members comprising three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Nomination Committee.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$500,000.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for about 10% of the turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for about 70% of its total purchases for the year. Purchase from the largest supplier accounted for about 29% of the total purchases for the year.

None of the Directors, their associates or any shareholders, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had an interest in the share capital of any of the five largest suppliers and customers of the Company.

PRE-EMPTIVE RIGHTS

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

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2006 have been audited by CCIF CPA Limited. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint CCIF CPA Limited as auditors of the Company.

On behalf of the Board

YU Longrui

Chairman and Chief Executive Officer

Hong Kong, 15 March 2007