



Management Discussion and Analysis

Financial Highlights

Turnover of the Group for the year ended 31 December 2006 ("Year") amounted to RMB184,628,000, representing an increase of approximately 80% over RMB102,392,000 for the last year. Audited profit attributable to shareholders of the Company amounted to RMB10,332,000, representing a decrease of approximately 47% as compared to RMB19,464,000 for the previous year. Basic earnings per share was RMB4.9 cents, representing a decrease of approximately 49% as compared to RMB9.7 cents for the previous year. On 23 June 2006, the Company issued convertible bonds in the principal amounts of HK\$75,000,000 in aggregate. Due to share price increases and other factors, the fair value of these convertible bonds was valued by the valuer with an increase of HK\$39,873,000. This increase was recorded as expenses in the current period in accordance with the Hong Kong Accounting Standards, which was the major reason for the decrease of profit attributable to shareholders of the Company as compared to the previous year.

Dividend

The Board did not recommend the payment of final dividend for the Year.

Business Review

Overview

The acquisition of interests in mining projects held through Feilong Non-ferrous, Yaoan Feilong and Puer Feilong (i.e. the Yuelong Mining Project) by the Company was completed on 23 June 2006. It realized a total operating income of RMB80,894,000 and operating profits of RMB55,316,000, representing a profit of RMB46,988,000 for mining operations after deducting amortisation charges of mining rights of RMB8,328,000 for the period commencing from the date of completion of acquisition to the financial year-end.

On 29 December 2006, the Group completed the acquisition of interests in mining projects held through Tengchong Ruitu (i.e. the Tengchong Mining Project). It did not have any significant effect on the Group's operating income and earnings as the period from the date of acquisition to the financial year-end was relatively short.

For the Year, the Group's toll revenues RMB103,734,000 were derived from the Xin Fu Section and the Wen An Section. During the Year, operating revenues attributable to the Xin Fu Section and the Wen An Section amounted to approximately RMB49,838,000 and RMB53,896,000 respectively. Since the Xin Fu Section recorded an impairment losses of RMB44,679,000, the operating losses of the management and operation of toll highways and bridges ("Toll Road Operations") were RMB6,644,000.

Yuelong Mining Project

Following the completion of the acquisition of the Yuelong Mining Project on 23 June 2006, the Company indirectly held 52% equity interest in three joint venture co-operative companies established in Yunnan Province and engaged in businesses of zinc and lead mining. Under the acquisition agreement, the consideration for the acquisition of the Yuelong Mining Project amounted to RMB300 million (equivalent to approximately HK\$288.50 million at the time of entering into such agreement). The consideration was satisfied (i) as to HK\$75 million by the Company's issue of convertible bonds; (ii) as to HK\$75 million by the issue of promissory notes by the Group, which will be settled in installments over a period of three years from the date of completion of the acquisition of the Yuelong Mining Project; and (iii) as to the remaining



balance, by cash payment. As no agreement had been reached in respect of the Chongqing Sino-Portuguese acquisition project, the net proceeds raised from the initial public offering of the Company in 2001 were used for the payment of part of the consideration under the Yuelong Mining Project.

From 23 June 2006 to the financial year-end, the operating income contributed from the Yuelong Mining Project amounted to RMB80,894,000 with gross profit of RMB56,353,000 and operating profits of RMB55,316,000, representing a profit of RMB46,988,000 for mining operations after deducting amortisation charges of mining rights of RMB8,328,000, and gross profit margin of approximately 70%. The ores extracted from such project was approximately 171,007 tons with unit mining cost of approximately RMB82 per ton and unit processing cost of approximately RMB71 per ton. The products of metal ore concentrates produced from the Yuelong Mining Project included zinc ore concentrates of 4,131 tons, lead ore concentrates of 1,495 tons and silver of 915 kilograms, representing a total of 5,627 metal tons while the unit production cost was approximately RMB5,603 per metal ton. In the second half of 2006, mineral ore concentrates were sold at an average price of approximately RMB20,540 per metal ton for zinc, RMB10,628 per metal ton for lead containing silver. During the Year, Feilong Nonferrous and Yaoan Feilong were under normal operations while Puer Feilong had not commenced its operations until November 2006.

Tengchong Mining Project

On 29 December 2006, the Company acquired the entire equity interest in Tengchong Ruitu, which held iron and zinc mining rights of certain mines situated at Wuji Mountain, Tengchong County, Yunnan Province, which mines have an estimated ore deposits of approximately 10,050,000 tons with an average grading of approximately 43% for iron ores, of which zinc reserves amounted to some 220,000 tons. The acquisition consideration for the transaction was RMB250,000,000, which was wholly satisfied by cash payment from the internal resources of the Group, the proceeds from share placement as well as bank borrowings. The consideration represents a gain on discount of RMB56,532,000. The Tengchong Mining Project brought no significant effect on the Group's operating income and earnings as the period from the date of completion of the acquisition to the financial year-end was relatively short.

The Wuji Mining Site of Tengchong Ruitu commenced commercial operations in late 2006 and the ore-mining and processing operations were mainly carried out through sub-contracting, and the unit mining cost was between approximately RMB42 and RMB45 per ton. Substantially all of the processing procedures for iron and zinc ores were made at the plant owned by an independent third party as appointed as sub-contractor by Tengchong Ruitu. It had a daily processing capacity of 1,000 to 1,500 tons ores and the unit processing cost was about RMB90 per ton for iron ore concentrates (with grading of approximately 62%) and about RMB3,000 per metal ton for zinc ore concentrates. For iron-zinc ores which contain higher grading of zinc, Tengchong Ruitu engaged a connected person (namely, Tengchong Heng Feng Mining Co., Ltd.) for cleansing and selection processing with processing fees of about RMB120 per ton. At present, iron ore concentrates are sold at a price of approximately RMB510 per ton with transportation fees of approximately RMB160 per ton.

Wen An Section of the National Highway 106 in Hebei Province

The Wen An Section, being located in Langfang, Hebei and in close proximity to Beijing, has a toll collection station at Wen An. In line with the rapid development of the economy and transport industry in Hebei Province, vehicle flows continued to grow with the annualized average annual daily traffic ("AADT") reaching 16,484 during the Year, representing an increase of approximately 10% as compared to 15,018 from the previous year, while the operating revenue achieved an increase of approximately 9% to RMB53,896,000 over RMB49,288,000 for the previous year. The growth rate of vehicle flows and toll revenues maintained at a steady rate. However, with keen competition from nearby highways which result in traffic diversion, future development of the toll collection business of the Wen An Section is expected to experience quite some pressure.



Xin Fu Section of the National Highway 204 in Jiangsu Province

The disposal of the Xin Fu Section operations to a connected person of the Company, Yue Da Enterprise Group (H.K.) Limited, was completed on 29 December 2006. The disposal consideration was RMB65 million and a loss on disposal of RMB6,337,000 was recorded based on the net asset value of the Xin Fu Section as of the completion date of the disposal. Due to the future traffic diversion and the major overhauls for the section, the Xin Fu Section operations also recorded an impairment loss of RMB44,679,000. The Xin Fu Section is located at Yancheng City District in Jiangsu Province and has established and operated two toll stations at Xin Xing and Shi Zhuang respectively. During the Year, the operating income was approximately RMB49,838,000, representing a decrease of approximately 6% as compared to RMB53,104,000 for the previous year, which evidenced the traffic diversion.

Toll collection system and repairs, maintenance and support facilities

Computer-aided toll collection and monitoring systems for both the Wen An Section and the Xin Fu Section were in use, which gave assurance to the operating quality of the toll highway business. During the Year, none of the toll fees of either Section were adjusted.

During the Year, regular repair and maintenance works were carried out in both the Wen An Section and the Xin Fu Section. The entities in charge of these works were the Langfang Municipal Communications Bureau and Yancheng Xinfu Highway Company Limited respectively, and no major overhaul was undertaken.

Prospects

The Group is committed to enhance the production capacity of its existing mines with the aim to enhance its mining and exploration efforts within the mining sites. To this end, the Company made investments in October 2006 in Hetaoping Mine in upgrading its facilities and enhancing its production capacity of the daily ore processing capacity of approximately 600 tons to 800 tons, and in building an additional processing plant with daily ore processing capacity of 500 tons. At the same time, a new processing plant with a daily ore processing capacity of 600 tons was also constructed at Yaoan Mine, which will supplement the original processing plant having a daily ore processing capacity of 600 tons. The new processing plant at Yaoan Mine commenced operations in March 2007. The new plant to be established in Hetaoping Mine is expected to commence operations in April 2007. These new facilities will help increase the production capacity of the existing mines. Meanwhile, Tengchong Ruitu is actively taking steps to explore new mines and construct new mining sites. It is anticipated that following completion of such works in the second half of 2007, the mining capacity of the Tengchong mine may be significantly increased.

The prices of metals such as lead and zinc have been rising over the past year. The directors believe that the demand for lead and zinc will be considerable given the rapid growth of the PRC economy and the expected growth in consumption of lead and zinc in the PRC. As the production capacity of metal smelting has been increasing, demands for metal ore concentrates are expected to increase rapidly. Currently, the market demand for lead and zinc ore concentrates generally exceeds their supply. The directors believe the relatively low production costs for lead and zinc as well as iron ore concentrates will bring high gross margin, and the mining projects acquired in 2006 will bring promising returns to the Group. Looking forward, the Group will continue to look for opportunity to acquire metal mining projects with abundant ore resources, high returns and suitable prices so as to further diversify its investment portfolio and to secure higher returns for its investors. On the other hand, increasing competition amongst highway operators may dampen the future growth of toll revenue, and the cost for repair and maintenance works may also increase gradually as a result of prolonged hours of highways usage, thus affecting the investment returns for highway operations.



FINANCIAL POSITION

Liquidity and Financial Resources

As at 31 December 2006, the Group's current assets were RMB121,065,000 (2005: RMB153,755,000), of which RMB102,094,000 (2005: RMB151,311,000) were cash on hand. As at the same date, the net asset value of the Group amounted to RMB842,033,000, representing approximately 97% increase as compared with RMB426,680,000 in 2005. The gearing ratio (total liabilities/total assets) of the Group was approximately 35% (2005:14%).

As at 31 December 2006, the share capital of the Company was RMB25,976,000 (2005: RMB21,000,000), and its reserve was RMB456,055,000 (2005: RMB304,466,000). As at the same date, the Group had total current liabilities of RMB118,997,000 (2005: RMB21,836,000), mainly comprising bank borrowings, the current portion of both the promissory notes and convertible bonds, and other payables. The total non-current liabilities of the Group amounted to RMB327,601,000 (2005: RMB45,122,000), mainly including bank borrowings and such promissory notes and convertible bonds having maturity over one year, as well as deferred taxation liabilities.

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollars, Renminbi and US dollars. During the Year, most transactions were denominated and settled in Renminbi. The directors believe that the Group's exposure to exchange rate risk is low.

CONTINGENT LIABILITIES AND CHARGE ON THE GROUP'S ASSETS

As at 31 December 2006, the Group did not have any outstanding guarantees or charges, or any material contingent liabilities.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2006, the Group had a total of approximately 1,512 employees in Hong Kong and the PRC, engaged in management, administration, toll collection functions and mining. The management reviewed the remuneration policy regularly on the basis of performance and experience of the employees as well as the prevailing industry practice. Social insurance contributions were made by the Group for its PRC employees in accordance with the relevant PRC regulations. Insurance and mandatory provident fund schemes are also maintained for its Hong Kong staff. During the Year, the Group provided various training courses on relevant business or skills for its management and staff at different levels. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the Year, except for the repurchase of 1,938,000 shares in the Company, neither the Company nor any of its subsidiaries sold or redeemed any of the Company's shares.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers that the Group complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange throughout the Year, except that the Chairman of the Board was unable to attend the annual general meeting of the Company held on 28 June 2006, but one of the executive directors of the Company was present to chair the meeting and non-executive directors of the Company are not appointed for any fixed term of appointment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by the directors of the listed issuers ("Model Code") set out in Appendix 10 to the Listing Rules. All the directors, in response to specific enquiries made by the Company, confirmed that they complied with the requirements set out in the Model Code throughout the Year.



AUDIT COMMITTEE

The Company's audit committee currently comprises Mr. Cai Chuan Bing and Ms. Leung Mei Han (both being independent non-executive directors) and Mr. Qi Guangya (being a non-executive director), and during the year under review, its members were Mr. Cai Chuan Bing and Ms. Yu Chor Woon Carol (both being independent non-executive directors) and Mr. Shen Xiao Zhong (being a non-executive director). Its duties include reviewing all matters relating to the scope of audit, such as the financial statements and internal control, with an aim to safeguard the interest of the shareholders of the Company. At a meeting held on 10 April 2007, the audit committee reviewed the accounting principles and practices adopted by the Group, the 2006 audited annual financial statements and the connected transactions, and discussed matters relating to audit, internal control and financial reporting with the management.

REMUNERATION COMMITTEE

The Company has set up with written terms of reference a remuneration committee, whose members are currently Mr. Cui Shuming and Mr. Cai Chuan Bing (both being independent non-executive directors) and Mr. Dong Li Yong (being an executive director). During the Year, the members of the remuneration committee were Mr. Yu Zheng Hua and Mr. Cai Chuan Bing (both being independent non-executive directors), and Mr. Gao Yi Shan (being an executive director). Regular meetings were held by the committee during the Year, which reviewed and discussed on the remuneration policy, remuneration levels, the remuneration of executive directors and other related matters of the Group.

