



## Directors' Report

The Board presents its annual report and the audited consolidated financial statements for the Year.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in (1) refining, exploration, mining and processing of zinc, lead and iron; and (2) management and operation of highways in the PRC.

During the Year, the Group acquired certain mining rights of zinc, lead and iron ores in the southern part of the PRC and disposed its entire interest in a toll highway in the PRC. Details of the Group's acquisitions and disposals are set out in notes 28 and 29 to the financial statements respectively.

### RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated income statement on page 36.

The directors do not recommend the payment of a dividend and propose that the profit for the Year be retained.

### FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past financial years is set out on page 84.

### PROPERTY, PLANT AND EQUIPMENT

During the Year, the Group spent approximately RMB14,859,000 on property, plant and equipment.

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

### SHARE CAPITAL

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

### DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders which represent the share premium, contributed surplus and retained profits as at 31 December 2006 was RMB330,760,000 (2005: RMB253,157,000).



## DIRECTORS

The directors of the Company during the Year and up to the date of this report were:

### Executive directors:

Mr. Hu You Lin (*Chairman*)

Mr. Dong Li Yong (*formerly Vice Managing director  
and re-designated as  
Chief Executive and Vice Chairman*)

Mr. Chen Gang

(Appointed on 2 January 2007)

Mr. Qian Jinbiao

(Appointed on 11 September 2006 and  
resigned on 2 January 2007)

Mr. Gao Yi Shan (*Vice Chairman and Managing director*)

(Resigned on 2 January 2007)

Mr. Lu Wei Dong, David

(Resigned on 11 September 2006)

Ms. Wang Pei Ping

(Resigned on 28 June 2006)

### Non-executive directors:

Mr. Liu Xiaoquang

(Appointed on 2 January 2007)

Mr. Qi Guangya

(Appointed on 2 January 2007)

Mr. Shen Xiao Zhong

(Resigned on 2 January 2007)

Mr. Pan Wan Qu

(Resigned on 2 January 2007)

### Independent non-executive directors:

Mr. Cai Chuan Bing

Ms. Leung Mei Han

(Appointed on 2 January 2007)

Mr. Cui Shuming

(Appointed on 2 January 2007)

Mr. Han Runsheng

(Appointed on 2 January 2007)

Ms. Yu Chor Woon, Carol

(Resigned on 2 January 2007)

Mr. Yu Zheng Hua

(Resigned on 2 January 2007)

In accordance with Article 108(A) of the Company's Articles of Association, Mr. Cai Chuan Bing is required to retire by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company. Under Article 112 of the Company's Articles of Association, Mr. Chen Gang, Mr. Liu Xiaoguang, Mr. Qi Guangya, Ms. Leung Mei Han, Mr. Cui Shuming and Mr. Han Runsheng, who were appointed by the directors as additional director and/or to fill casual vacancy, will hold office until the forthcoming general meeting of the Company (i.e. also being the forthcoming annual general meeting in this instance) and, being eligible, will offer themselves for re-election.



## DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office of each of the non-executive directors and the independent non-executive directors is the period up to his/her retirement by rotation as required by the Company's Articles of Association.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OR ANY ASSOCIATED CORPORATION OF THE COMPANY

Other than the directors' interests in share options to subscribe for shares in the Company as disclosed under the section headed "Share Options" below, at 31 December 2006, none of the directors, nor chief executive, nor their associates had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules.

## SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted by a written resolution passed on 12 November 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the Group and will expire on 11 November 2011. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants to take up options to subscribe for shares of the Company:

- (i) any employee or proposed employee (whether full time or part time) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- (vii) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,



and, for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of shares of the Company or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the directors otherwise determined, be construed as a grant of option under the Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the directors from time to time.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group is not permitted to exceed 10% of the shares of the Company in issue as at the date of adoption of the Scheme (i.e. on 12 November 2001, the 10% limit being 20,000,000 shares of the Company), unless with prior approval from the Company's shareholders.

The number of shares in respect of which options may be granted to any participant in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to directors, chief executives or substantial shareholders of the Company or any of their respective associates must be approved by independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotations on the date of the offer for grant; (ii) the average closing price of shares as stated in the daily quotations of the Stock Exchange for the five business days immediately preceding the date of the offer for grant; and (iii) the nominal value of the shares.

Further particulars of the Company's share option scheme are set out in note 30 to the financial statements.



Details of movements during the Year in the options granted by the Company under the Scheme are as follows:

Names and classes of the participants	Exercisable period (note)	Exercise price per share HK\$	Outstanding at 1st January, 2006	Exercised during the year	Outstanding at 31st December, 2006	Closing price per share immediately before the date of grant HK\$
<i>Directors of the Company:</i>						
Mr. Hu You Lin	16 May 2003 to 28 April 2013	0.40	1,980,000	(1,980,000)	—	0.40
	12 October 2005 to 25 September 2015	0.53	1,980,000	—	1,980,000	0.53
Mr. Dong Li Yong	16 May 2003 to 28 April 2013	0.40	1,020,000	(1,020,000)	—	0.40
	12 October 2005 to 25 September 2015	0.53	1,200,000	(1,200,000)	—	0.53
Mr. Qian Jinbiao <sup>1</sup>	16 May 2003 to 28 April 2013	0.40	270,000	(270,000)	—	0.40
Mr. Gao Yi Shan <sup>2</sup>	12 October 2005 to 25 September 2015	0.53	1,200,000	(1,200,000)	—	0.53
Mr. Lu Wei Dong, David <sup>3</sup>	16 May 2003 to 28 April 2013	0.40	1,020,000	(1,020,000)	—	0.40
	12 October 2005 to 25 September 2015	0.53	600,000	(600,000)	—	0.53
Ms. Wang Pei Pang <sup>4</sup>	12 October 2005 to 25 September 2015	0.53	600,000	—	600,000	0.53
Mr. Shen Xiao Zhong <sup>2</sup>	12 October 2005 to 25 September 2015	0.53	390,000	(390,000)	—	0.53
Mr. Pan Wan Qu <sup>2</sup>	12 October 2005 to 25 September 2015	0.53	510,000	—	510,000	0.53
Total for directors of the Company			10,770,000	(7,680,000)	3,090,000	
<i>Other employees of the Company:</i>						
In aggregate	9 May 2003 to 28 April 2013	0.40	2,220,000	(2,220,000)	—	0.40
	12 October 2005 to 25 September 2015	0.53	1,140,000	(450,000)	690,000	0.53
Total for other employees of the Company			3,360,000	(2,670,000)	690,000	
<i>Other employees of the subsidiaries:</i>						
In aggregate	16 May 2003 to 28 April 2013	0.40	1,650,000	(1,050,000)	600,000	0.40
	12 October 2005 to 25 September 2015	0.53	300,000	(300,000)	—	0.53
Total for other employees of the subsidiary			1,950,000	(1,350,000)	600,000	
Total			16,080,000	(11,700,000)	4,380,000	



Note: For options granted by the Company to subscribe for shares in the Company, the date of grant (i.e. the date of offer for grant of such options to those persons so entitled under the Scheme) was 29th April, 2003 and 26th September, 2005 respectively. The commencement dates of the exercisable period set out in the above table are the dates of acceptance of the offers by the respective participants, while the expiry dates are the dates of expiry (i.e. 28th April, 2013 and 27th September, 2015) of a 10-year period from the date of grant as provided under the rules of the Scheme.

1. Mr. Qian Jinbiao was appointed on 11th September, 2006 and resigned on 2nd January, 2007.
2. Mr. Gao Yi Shan, Mr. Shen Xiao Zhong and Mr. Pan Wan Qu resigned on 2nd January, 2007.
3. Mr. Lu Wei Dong, David resigned on 11th September, 2006.
4. Ms. Wang Pei Ping resigned on 28th June, 2006.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section headed “Share Options” above, at no time during the Year was the Company, its subsidiaries, its holding companies or any subsidiaries of its holding companies a party to any arrangements to enable the directors of the Company 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

No contract of significance to which the Company, its subsidiaries, its holding companies or any subsidiaries of its holding companies 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.

## CONNECTED TRANSACTIONS

Details of the discloseable connected transactions are disclosed in note 34 to the financial statements.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms, or on terms no less favourable than terms available to or from (as the case may be) independent third parties; and
- (iii) in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The transactions fall under the definition of “continuing connected transaction” in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules if applicable.



## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance shows that, as at 31 December 2006, the following persons had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of issued ordinary shares held (Note a)	Percentage of the issued share capital of the Company (Note b)
Yue Da Group (H.K.) Co., Limited	Beneficial owner	135,000,000 (L) 10,000,000 (S)	54.05% 4.00%
Jiangsu Yue Da Group Company Limited (Note c)	Interest of a controlled corporation	135,000,000 (L) 10,000,000 (S)	54.05% 4.00%
Pure Talent Investments Limited (Note d)	Interest of a controlled corporation	54,999,999 (L)	22.02%
Mr. Yang Long (Note e)	Interest of a controlled corporation	54,999,999 (L)	22.02%

Notes:

- (L) – Long position; (S) – Short position
- The percentage of issued share capital of the Company is calculated by reference to 249,762,000 shares in issue as at 31 December 2006.
- Jiangsu Yue Da Group Company Limited holds 100% interests in Yue Da Group (H.K.) Co., Limited and is accordingly deemed to be interested in the shares of the Company beneficially owned by Yue Da Group (H.K.) Co., Limited under the Securities and Futures Ordinance.
- Pure Talent Investments Limited holds 100% interest in Feilong Holdings Limited.
- Mr. Yang Long holds 100% interest in Pure Talent Investments Limited which in turn holds 100% interest in Feilong Holdings Limited.
- As set out in the corporate substantial shareholder notice filed by Zhongshan Industrial Enterprise Limited (鐘山投資實業有限公司) on 4 April 2003, it had interests in 10,914,000 shares, representing 5% (as set out in the notice) of the then issued capital on the Company (the number of shares in issue disclosed in the notice is 200,000,000). 10,914,000 shares represent 4.36% of the total issued shares of the Company as at 31 December 2006 (i.e. 249,762,000 shares).

Other than as disclosed above, the Company has not been notified of any other persons who, as at 31 December 2006, had interests of 5% or more or short positions in any shares or underlying shares of the Company.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers during the Year accounted for approximately 44% of the Group's total revenue and the largest customer accounted for approximately 44% of the Group's total revenue. The aggregate purchases attributable to the Group's five largest suppliers during the Year accounted for approximately 87% of the Group's purchases and the largest suppliers accounted for approximately 87% of the Group's total purchases.



At no time during the Year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

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

During the Year, the Company repurchased 1,938,000 ordinary shares of the Company on the Stock Exchange. Apart from this, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Particulars of such repurchase are disclosed in Note 26 to the financial statements. The aggregate price paid by the Company for such repurchase is in the sum of RMB7,154,000 and the shares were all repurchased on the Stock Exchange.

## **EMOLUMENT POLICY**

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

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive for directors and eligible employees. Details of the scheme are set out in note 30 to the financial statements.

## **PLACING AND SUBSCRIPTION OF SHARES**

Pursuant to the placing and subscription agreement signed on 13 October 2006, Yue Da HK raised net proceeds of approximately HK\$146 million by issuing 45 million ordinary shares of HK\$0.10 each in the capital of the Company (with an aggregate nominal value of HK\$4,500,000) at HK\$3.80 each to independent investors, while the net price to the Company of each share issued is HK\$3.65. The independent investors are independent private individual and institutional investors who are independent of and not connected nor acting in concert with the directors, chief executive or substantial shareholders of the Company or its subsidiaries, or any of their respective associates. The reason for such placing was to raise funds for partial settlement of the acquisition of the entire equity interest in, and the shareholder loans to Fly Ascent Group Limited. The placing price of HK\$3.8 per share represented a discount of 4.76% to the closing price of HK\$4.055 per share as quoted on the Stock Exchange on 12 October 2006, being the date on which the terms of the placing and subscription were fixed. The net proceeds raised were used to finance the acquisition of the entire issued share capital of Fly Ascent Group Limited together with the outstanding loans due to Feilong Holdings Limited.

Particulars of the placing and subscription are also set out in Note 26 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

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





## SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the directors, as at the latest practicable date prior to the issue of this report, the Company has maintained a sufficient public float throughout the Year.

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## AUDITORS

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

On behalf of the Board

**Mr. Hu You Lin**

*CHAIRMAN*

Hong Kong, 10 April 2007