

## DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements for the eighteen months from 1st July 2005 to 31st December 2006 (the "period").

### CHANGE OF FINANCIAL YEAR END DATE

On 17th May 2006, the directors passed an ordinary resolution to change the financial year end date of the Company from 30th June to 31st December commencing from the year 2006. The reason for the change is to align the financial year end date of the Company with that of its subsidiary. As a result, the current financial period covers the period.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of the subsidiaries are set out in note 18 to the financial statements.

### RESULTS AND DIVIDENDS

The loss and cash flows of the Group for the period and the state of affairs of the Company and of the Group as at 31st December 2006 are set out in the financial statements on pages 24 to 84.

The directors do not recommend the payment of any dividends in respect of the period.

### FINANCIAL SUMMARY

The summary of the consolidated results of the Group for each of the period ended 30th June 2002, the three years ended 30th June 2005 and the period ended 31st December 2006 and the assets and liabilities of the Group as at 30th June 2002, 2003, 2004 and 2005 and 31st December 2006 are set out on page 85.

### SHARE CAPITAL

Details of movements in share capital of the Company during the period are set out in note 30 to the financial statements.

### SHARE OPTION SCHEME

In accordance with the terms of the share option scheme adopted by the Company pursuant to an ordinary resolution of the Company passed on 6th November 2001 (the "Share Option Scheme"), the Company may grant options to the eligible person of the Company to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued in the exercise of options for the purpose of providing incentives or rewards to selected eligible person for their contribution to the Group. The Share Option Scheme became effective on 6th November 2001, unless otherwise cancelled or amended according to the Share Option Scheme, will remain in force for 10 years from that date. Eligible person of the Share Option Scheme includes the followings:

- (i) any director, employee or consultant of the Company, a subsidiary or an affiliate; or
- (ii) any discretionary trust whose discretionary objects include any director, employee or consultant of the Company, a subsidiary or an affiliate; or
- (iii) a company beneficially owned by any director, employee or consultant of the Company, a subsidiary or an affiliate; or
- (iv) any person or entity whose service to the Group or business with the Group contributes or is expected to contribute to the business or operation of the Group as may be determined by the directors from time to time.

## DIRECTORS' REPORT

### SHARE OPTION SCHEME *(continued)*

The exercise price of the share options shall be the higher of (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; and (iii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant (subject to Scheme adjustments).

Details of movements in share options of the Company are set out in note 31 to the financial statements.

### RESERVES

Details of movements in reserves of the Group and the Company during the period are set out in note 32 to the financial statements.

As at 31st December 2006, the Company's reserves of approximately HK\$9,771,000 (2005: HK\$59,881,000) (subject to provisions under the Companies Act 1981 of Bermuda, as amended) were available for distribution to the Company's shareholders. In addition, the share premium of the Company in the amount of approximately HK\$71,905,000 (2005: HK\$43,973,000), may be distributed in form of fully paid bonus shares.

### CONVERTIBLE BOND

Details of movements in convertible bond of the Group and the Company during the period are set out in note 33 to the financial statements.

### RETIREMENT BENEFITS

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The MPF Scheme is a defined contribution scheme managed by an independent trustee. Under the MPF scheme, each of the Group and its employees make monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employee's contribution are subject to a cap of monthly earnings of HK\$20,000 and thereafter contributions are voluntary. As stipulated by the rules and regulations in PRC, the Group contributes to a state-sponsored retirement plans for its employees in PRC. The Group contributes to retirement plans at specified percentages of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

### PROPERTY, PLANT AND EQUIPMENT

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

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 39 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the period or at any time during the period.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company who held office during the period and up to the date of this report were:-

### Executive Directors

Mr. Wu Yijian ( <i>Chairman</i> )	
Mr. Hu Yangxiong	(re-designated as an Executive Director on 28th March 2006)
Mr. Sean Liu	(resigned on 15th January 2006)
Mr. Qin Chuan	(resigned on 28th March 2006)
Mr. Chan Wing Yau, George	(resigned on 31st December 2006)
Mr. Cheng Koon Cheung	(appointed on 22nd December 2005 and resigned on 9th May 2006)
Mr. Mo Keung	(appointed on 16th January 2006 and resigned on 8th January 2007)
Mr. Lam Chung Fai	(appointed on 18th May 2006)

### Independent Non-Executive Directors

Mr. Hu Yangxiong	(re-designated as an Executive Director on 28th March 2006)
Mr. Chan Wai Kwong, Peter	
Mr. Kwok Wing Wah	(resigned on 8th January 2007)
Mr. Paul Zhong	(resigned on 12th July 2005)
Mr. Xiao Ming	(appointed on 28th March 2006)
Mr. Fu Wing Kwok, Ewing	(appointed on 8th January 2007)

In accordance with the Bye-law 87(1) of the Company, Mr. Hu Yangxiong and Mr. Chan Wai Kwong, Peter will retire from the office of directorship by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from the Independent Non-Executive Directors, Mr. Hu Yangxiong, Mr. Chan Wai Kwong, Peter, Mr. Kwok Wing Wah and Mr. Xiao Ming, and considers them to be independent for this period. The Company considers that each of such Independent Non-Executive Directors to be independent from the Group based on the Guidelines set out in Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the annual report.

None of the directors had entered into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REPORT

### EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors and top five highest paid individuals of the Group are set out in note 8 to the financial statements.

### CONNECTED TRANSACTIONS

The details of connected transactions of the Group which were discloseable under Chapter 14A of the Listing Rules are disclosed in note 39(b) to the financial statements.

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

As at 31st December 2006, the interests and short positions of the directors and chief executives of the Company 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO") which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) were required to be entered into the register required to be kept under Section 352 of the SFO, or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules (the "Model Code"), were as follows:—

#### (a) Long positions in the shares of HK\$0.10 each

Name of director	Nature of interest	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Mr. Sean Liu ( <i>Note</i> )	Corporate interests	149,100,000	30.36%
Mr. Lam Chung Fai	Personal interests	3,300,000	0.67%

*Note:*

Mr. Sean Liu held 70% of the issued share capital of in Best Mineral Resources Limited ("BMRL"). BMRL held 149,100,000 shares as at 31st December 2006. As such, Mr. Sean Liu was deemed to be interested in 149,100,000 shares by virtue of his shareholding in BMRL. Mr. Sean Liu resigned from the position of Executive Director of the Company on 15th January 2006.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY *(continued)*

### (b) Long positions in underlying shares

Name of grantee	Date of grant	Exercise price	Exercise period	Number of share options			
				Outstanding as at 1st July 2005	Granted during the period	Forfeited during the period	Outstanding as at 31st December 2006
Mr. Chan Wing Yau, George	23rd February 2004	HK\$0.54	23rd February 2004 to 22nd February 2009	4,092,225	–	(4,092,225)	–
Mr. Hu Yangxiong	25th May 2006	HK\$0.45	25th May 2006 to 25th May 2008	–	4,000,000	–	4,000,000
Mr. Lam Chung Fai	25th May 2006	HK\$0.45	25th May 2006 to 25th May 2008	–	2,000,000	–	2,000,000
				<u>4,092,225</u>	<u>6,000,000</u>	<u>(4,092,225)</u>	<u>6,000,000</u>

Mr. Chan Wing Yau, George resigned from the position of Executive Director of the Company on 31st December 2006 and was ceased to be an eligible person on his 4,092,225 share options granted on 23rd February 2004, under Rule 5.2 of the Share Option Scheme adopted by the Company pursuant to an ordinary resolution passed on 6th November 2001. Save as disclosed above, no other share option which has been granted to the directors of the Company was exercised or cancelled during the period.

All the interests stated above represents long positions. No short positions were recorded in the register maintained by the Company under Section 352 of the SFO as at 31st December 2006.

Save as disclosed above, as at 31st December 2006, none of the directors or chief executives of the Company had, under Divisions 7 and 8 of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests and 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 SFO) or any interests which are required to be notified to the Company and the Stock Exchange or any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or are required pursuant to the Model Code.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS

As at 31st December 2006, so far as is known to the directors and chief executives of the Company, the following parties (other than a director or chief executive) had interests or short positions in the shares, underlying shares and debentures of the Company which would have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to Section 336 of the SFO:—

Name of shareholder	Long positions/ short positions	Nature of interests	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
BMRL	Long positions	Personal interests	149,100,000 (Note)	30.36%
Mr. Sean Liu	Long positions	Corporate interests	149,100,000 (Note)	30.36%
Ms. Chen Jing	Long positions	Family interests	149,100,000 (Note)	30.36%

Note:

BMRL held 149,100,000 shares under its own name as at 31st December 2006. Mr. Sean Liu held 70% of the issued share capital of BMRL. As such, Mr. Sean Liu was deemed to be interested in 149,100,000 shares by virtue of his shareholding in BMRL. Mr. Sean Liu resigned from the position of Executive Director of the Company on 15th January 2006. Ms. Chen Jing is the spouse of Mr. Sean Liu and is deemed to be interested in 149,100,000 shares.

Save as disclosed above, the directors and chief executives of the Company were not aware that there is any person who, as at 31st December 2006, had an interest or a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors of the Company is interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

### MAJOR CUSTOMERS AND SUPPLIERS

For the period, the five largest customers of the Group accounted for approximately 13.9% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 15.1% of the Group's total purchases. The largest customer to the Group accounted for approximately 12.5% of the Group's total turnover while the largest supplier to the Group accounted for approximately 4.2% of the Group's total purchases.

None of the directors, their associates, or any shareholders (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest major customers and suppliers during the period.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

## **SEGMENT INFORMATION**

Analysis by principal activities and geographical markets of the Group's turnover and results for the period is provided in note 41 to the financial statements.

## **MANAGEMENT CONTRACTS**

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the period.

## **MATERIAL LITIGATION**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the directors to be pending or threatened by or against the Company or any of its subsidiaries.

## **SUFFICIENCY OF 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 more than 25% of the Company's shares in the market as required under the Listing Rules.

## **AUDITORS**

Messrs. PKF were appointed as auditors of the Company with effect from 23rd March 2006 to fill the vacancy made by the resignation of Messrs. Chu & Chu with effect from 28th February 2006.

The financial statements for the eighteen months ended 31st December 2006 have been audited by Messrs. PKF, who retire, and being eligible, offer themselves for re-appointment in the forthcoming annual general meeting.

On behalf of the Board

**Wu Yijian**

*Chairman*

Hong Kong, 10th April 2007