



REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) have pleasure in presenting their report and the audited consolidated financial statements of the Company together with its subsidiaries (the “Group”) for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the activities of the principal subsidiaries are set out in note 36 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Group at that date are set out in the financial statements on page 24 of this Annual Report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

In January 2007, the Board declared and paid a special dividend of HK\$0.207 per share totaling HK\$55,553,131.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 71 of this Annual Report.

PROPERTY, PLANT, EQUIPMENT AND CONSTRUCTION-IN-PROGRESS AND INVESTMENT PROPERTIES

Details of movements in the property, plant, equipment and construction-in-progress and investment properties of the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Further details of the Group’s investment properties are set out on page 72 of this Annual Report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

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



REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity set out on page 27 of this Annual Report.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$105,736,391 (2005: 108,319,422), of which HK\$55,553,131 was proposed and paid as special dividend in January 2007.

DIRECTORS

The Directors of the Company during the year and up to the date of this Annual Report were:

Executive Directors:

Mr. He Xuechu (<i>Chairman</i>)	(appointed on 3 February 2007)
Ms. Yue Qian (<i>CEO</i>)	(appointed on 4 April 2007)
Mr. Guo Bo	(appointed on 3 February 2007)
Ms. Cheung Choi Ngor	(appointed on 2 May 2006 and resigned on 3 February 2007)
Mr. Richard Howard Gorges	(appointed on 2 May 2006 and resigned on 3 February 2007)
Mr. Ng Yuk Fung, Peter	(appointed on 2 May 2006 and resigned on 3 February 2007)
Ms. Cheung Lai Lin, Pealin	(appointed on 2 May 2006 and resigned on 3 February 2007)
Mr. Lo Chak Wa	(appointed on 2 May 2006 and resigned on 16 October 2006)
Mr. Feng Shen Chuan	(resigned on 25 May 2006)
Ms. Kuo Shu Chen	(resigned on 25 May 2006)
Mr. Feng Yung Chuan	(resigned on 25 May 2006)
Ms. Wu Xiaoqin	(resigned on 25 May 2006)

Independent Non-executive Directors:

Dr. Lu Yungang	(appointed on 3 February 2007)
Mr. Shaw Lut, Leonardo	(appointed on 3 February 2007)
Mr. Lee Cheuk Yin, Dannis	(appointed on 3 February 2007)
Mr. Chiu Sin Chun	(appointed on 2 May 2006 and resigned on 3 February 2007)
Ms. Wong Siu Yin, Elizabeth	(appointed on 2 May 2006 and resigned on 3 February 2007)
Ms. Li Yuen Yu, Alice	(appointed on 2 May 2006 and resigned on 3 February 2007)
Mr. Lo Kwok Kwei, David	(retired on 30 June 2006)
Mr. Au Wing Kit	(resigned on 25 May 2006)
Ms. Eugenia Yang	(resigned on 25 May 2006)

In accordance with Article 91 of the Articles of Association of the Company, Mr. He Xuechu, Ms. Yue Qian, Mr. Guo Bo, Mr. Lu Yungang, Mr. Lee Cheuk Yin, Dannis and Mr. Shaw Lut Leonardo will retire from office at the forthcoming Annual General Meeting and, being eligible, Mr. He Xuechu, Ms. Yue Qian, Mr. Guo Bo, Mr. Shaw Lut, Leonardo offer themselves for re-election.

The Independent Non-executive Directors have fixed term of office and will be subject to retirement by rotation and re-election at the forthcoming Annual General Meeting of the Company according to the Articles of Association of the Company.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received from each of the former Independent Non-executive Directors, Mr. Chiu Sin Chun, Ms. Wong Siu Yin, Elizabeth and Ms. Li Yuen Yu, Alice, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2006. As at the date of this Annual Report, the Company considers the present Independent Non-executive Directors to be independent who have confirmed their independence to the Stock Exchange of Hong Kong Limited after their appointment.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Executive Directors:

Mr. He Xuechu, aged 44, has extensive experience in financial management and investment field and is now in charge of Group's strategic planning and vision defining as well as the financial management. Mr. He graduated from Anhui Finance and Trade College, the PRC in 1983 with a Bachelor degree in Economics. Between 1983 and 1985, Mr. He was employed by the Domestic Trade Ministry of the PRC. Soon thereafter, he joined China Resources Co., Ltd. in Beijing as a deputy manager in the finance department. In 1989, Mr. He was transferred to China Resources (Holdings) Co., Ltd. in Hong Kong as a deputy general manager in finance department, responsible for financial management of the whole group. In 1997, Mr. He set up his own business, principally engaged in general trading, property development and other strategic investments in the PRC. During the period from 2002 to June 2005, Mr. He has successfully restructured several Hong Kong listed companies through merger and acquisition and was nominated as the respective Executive Chairman. Mr. He is now the Chairman of ChinaGrowth South Acquisition Corporation (USOTCBB Symbol: CGSUF) and a director of ChinaGrowth North Acquisition Corporation (USOTCBB Symbol: CGNUF).

Ms. Yue Qian, aged 35, is currently a director of Nority Ltd., a wholly own subsidiary of Nority International Group Ltd. and has over 10 years of sales and marketing and administrative management. In 1995, she graduated from the Department of Electrical Engineering and Optics of Nanjing University of Science and Technology and got her MBA degree from the University of East London in 2001. During the period of 1995 to 2006, Ms. Yue was once the marketing director of Beijing Aerospace Fudao High-Tech Co., Ltd., the permanent deputy general manager of Beijing Asia Pacific East Telecommunication Network Co., Ltd. and the deputy general manager of Aerospace New World (China) Technology Co., Ltd. Ms. Yue has been the deputy managing director of Waichun Technology (China) Corporation Ltd since 2006.



REPORT OF THE DIRECTORS

Mr. Guo Bo, aged 38, holds a bachelor degree of art in English and Literature. Mr. Guo is now responsible for the daily operation of the Group especially on the investment activities of the whole Group. He is currently a director of Wai Chun Investment Fund. Mr. Guo was a lecturer at Huazhong University of Science and Technology in Wuhan, the PRC during 1992 to 1998. Mr. Guo was a vice president at Beijing Jian-Tech Co. Ltd. and an assistant to chairman at Beijing Jian Enterprise (Group) Co. Ltd. respectively during 1998 to 2002. During 2002 to 2003, Mr. Guo was a special assistant to chief executive officer at Purple Telecomm. Inc., 21vianet (Hong Kong) Co. Ltd., and 21vianet China Inc. During 2003 to 2005, Mr. Guo was a director and an executive vice president at Angels Telecom Technology Co. Ltd. and a director at Smart Mover ITS Technology Co. Ltd. and Beijing Asia Pacific East Communication Network Limited respectively. Mr. Guo has extensive experience in corporate governance, performance management, risk control and feasibility valuation.

Independent Non-executive Directors:

Dr. Lu Yungang, aged 43, is the founder and managing director of APAC Capital Advisors Limited, an investment management company focusing on the Greater China markets. Prior to founding APAC Capital Advisors Limited, Dr. Lu worked as a research analyst at a number of leading investment banks including JP Morgan Securities Asia Inc. and Credit Suisse First Boston ("CSFB"). He served as the Head of China Research at CSFB from October 2001 to May 2004, managing a team of over 10 research analysts and directing CSFB's overall China research products. Dr. Lu holds a Bachelor of Science degree from the Beijing University, a Master of Science degree from the Brigham Young University, Provo, Utah and a Ph. D. degree in finance from the University of California (Los Angeles). Dr. Lu is also the independent non-executive director of Enerchina Holdings Limited (stock code: 622) and Kasen International Holdings Limited (stock code: 496) respectively.

Mr. Shaw Lut, Leonardo, aged 41, is the deputy head of 華頓綜合經濟研究所 (Huadun Economic Institute), the director of 行政及公務人員研修基金 (Administrator and Official Study Fund), the vice director of 國務院發展研究中心東方公共管理綜合研究所專家委員會 (the Expert Committee of the Eastern Public Management Institute of the Development Research Centre of State Council). Mr. Shaw graduated from Shanghai Fudan University and was a teacher and researcher at Fudan University. Mr. Shaw is currently a committee member of All-China Youth Federation, the deputy chairman of Beijing United Youth Association and the deputy chairman of Internet Professional Association, Hong Kong.

Mr. Lee Cheuk Yin, Dannis, aged 36, possesses over 10 years of experience in accounting and auditing field. He graduated from Texas A & M University, the USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lee is the Executive Director of both Vision Grande Group Holdings Limited (stock code: 2300) and Norstar Founders Group Limited (stock code: 2339), and is also the Independent Non-executive director of Geely Automobile Holdings Limited (stock code: 175) and Dawnrays Pharmaceutical (Holdings) Limited (stock code: 2348).

Senior Management:

Mr. William Wei, Liu is now the Vice President of the company and is responsible for external affairs, specifically on the sphere of company investor relations and corporate communication and corporate image set-up and etc. Prior to joining Nority, Mr. Liu was a director of Hans Energy Company Ltd, a listed company in HKEx (Stock Code: 554). Mr. Liu was also once the director of China Metal & Technologies (H.K.) Limited, and the regional head of an American investment firm engaged in hi-tech and media business in China and Hong Kong. Mr. Liu holds a master degree in business administration from the University of San Francisco. Mr. Liu has over 10 years of experience in corporate banking and corporate finance activities working with The Hongkong Chinese Bank Ltd and Lippo Group.

Mr. Wang Yuanheng, is a qualified lawyer admitted in HK as well as England and Wales. He is a senior consultant at Livasiri & Co. in HK. He has developed expertise in mergers and acquisitions, corporate finance, international investments, commercial and corporate law for more than 10 years. He obtained a bachelor's degree in Laws from the University of Wales and a postgraduate certificate in Laws from the University of Hong Kong. Mr. Wang is now acting as the Company Secretary of Nority International Group Ltd.

DIRECTORS' SERVICE CONTRACTS

All Directors (including non-executive independent directors) have entered into service contracts with the Company for a term of 2 years commencing from 3rd February 2007.

As at 31 December 2006, none of the Directors had entered or proposed to enter into a 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' REMUNERATION

There are no directors fee payable for Mr. He, Ms. Yue and Mr. Guo under service agreements, but will be entitled to a discretionary year-end bonus and may be granted share options from time to time.

All non-executive directors i.e. Mr. Lu Yungang, Mr. Lee Cheuk Yin, Dannis and Mr. Shaw Lut Leonardo will be entitled to HK\$120,000 per annum as directors' fee (without any bonus payment).



REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of, its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as 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 set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(A) Long positions in ordinary shares of associated corporations:

(i) South China Holdings Limited ("South China Holdings")

Name of Director	Note	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Ms. Cheung Choi Ngor (Ms. Cheung)	(a)	487,949,760	Interests of controlled corporations	26.76%
Mr. Richard Howard Gorges (Mr. Gorges)	(a)	487,949,760	Interests of controlled corporations	26.76%

(ii) South China Financial Holdings Limited ("SCFH") (Note b)
(formerly known as South China Brokerage Company Limited)

Name of Director		Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Gorges		12,174,000	Beneficial owner	0.24%

(iii) South China Financial Credits Limited ("SCFC") (Note c)

Name of Director		Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Ng Yuk Fung, Peter (“Mr. Peter Ng”)		250,000	Beneficial owner	0.59%

(B) Long positions in underlying shares of SCFH

Name of director	Capacity	Number of underlying shares*	Approximately percentage of shareholding
Ms. Cheung	Beneficial owner	30,000,000	0.60%
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Mr. Peter Ng	Beneficial owner	50,000,000	1.00%

* Represents underlying shares granted to the Directors of SCFH under the share option scheme of SCFH as follows:-

Name of Director	Date of grant (DD/MM/YY)	Subscription price HK\$	Number of share options granted	Exercise period (DD/MM/YY)
Ms. Cheung	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Gorges	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Peter Ng	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
	26/04/2006	HK\$0.128	6,666,667	26/04/2007 – 25/04/2009
			6,666,667	26/04/2008 – 25/04/2010
			6,666,666	26/04/2009 – 25/04/2011

Notes:

- Ms. Cheung and Mr. Gorges are considered as parties to an agreement with Mr. Ng Hung Sang to which section 317 of the SFO applies. Ms. Cheung, Mr. Gorges and Mr. Ng Hung Sang (acting through a controlled corporation which is owned as to 60% by Mr. Ng Hung Sang, 20% by Ms. Cheung and 20% by Mr. Gorges) are deemed to have an interest in 487,949,760 issued ordinary shares of South China Holdings.
- South China Holdings owns an interest of 72.75% in the issued share capital of SCFH.
- SCFC is a 98.36% owned subsidiary of SCFH.
- All interests disclosed above represent long positions.



REPORT OF THE DIRECTORS

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2006, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as 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") as contained in Appendix 10 of the Listing Rules.

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

As at 31 December 2006, other than the interests and short positions of the Directors and chief executives of the Company, the following persons had the following interests and short positions in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO"):

Name of shareholder	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng Hung Sang ("Mr. Ng")	Interests of controlled corporations	255,885,561	95.35%
South China Holdings	Interests of controlled corporations	255,885,561	95.35%
South China Industries ("South China Industries")	Interests of controlled corporations	255,885,561	95.35%
Chinese Success Ltd. ("Chinese Success")	Beneficial owner	255,885,561	95.35%
Mr. Lam Ching Kui	Interests of controlled corporations	255,885,561	95.35%
Wai Chun Investment Fund	Interests of controlled corporations	255,885,561	95.35%

Notes:

1. Mr. Ng Hung Sang, through corporations controlled by him, has an interest of 73.72% in the issued share capital of South China Holdings. South China Holdings, through its controlled corporations, owns an interest of 74.79% in the issued share capital of South China Industries. South China Industries through Micon Limited ("Micon"), its wholly owned subsidiary, owns an interest of 95.35% in the issued share capital of the Company, i.e. 255,885,561 ordinary shares of the Company. By virtue of the said interests of Mr. Ng in South China Holdings, the said interest of South China Holdings in South China Industries and the said interest of South China Industries in the Company, each of Mr. Ng, South China Holdings and South China Industries is deemed to be interested in the 255,885,561 ordinary shares of the Company and is taken to have a duty of disclosure under the SFO.
2. In November 2006, Chinese Success entered into the Agreement with Micon and South China Industries pursuant to which Chinese Success agreed to acquire 255,885,561 ordinary shares of the Company from Micon. Chinese Success is wholly owned by Wai Chun Investment Fund which is in turn wholly owned by Mr. Lam Ching Kui.
3. All interests disclosed above represent long positions.

Save as disclosed above, as at 31 December 2006, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year 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 or any other body corporate, and none of the Directors or the chief executives, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

SHARE OPTION SCHEME

Share option scheme ("Scheme") of the Company was adopted by the shareholders of the Company on 10th June 2003 to comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Purpose of the share option scheme

The purpose of the Scheme is to enable the Company to grant options to certain members of the Company and the subsidiaries and any suppliers, consultants, agents and advisers in recognition of their contribution to the Company and the subsidiaries.

Participants of the share option scheme

Under the terms of the Scheme, the directors may, at their discretion, invite full-time employees of the Group, including directors of the Company and its subsidiaries, and any suppliers, consultants, agents and advisers, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares.



Total number of shares available for issue under the share option scheme

The maximum number of share in respect of which options may be granted (together with options exercised and options then outstanding) at any time under the Scheme shall not, when aggregated with any shares subject to any other schemes involving the issue or grant of option over shares by the Company to, or for the benefit of eligible participants, exceed such number of shares as shall represent 10% of the issued share capital of the Company as at the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The Company may, from time to time, seek approval from shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

During the year, the Company has not granted any option to any directors or eligible persons under the Scheme. No share option was outstanding as at 31 December 2005 and 2006.

On 15 March 2007, 26,800,000 Shares options were granted to three directors of the Company in respect of their service to the Group in the forthcoming year. The price of the Company's share at the date of grant was HK\$2.36.

As at the date of this Annual Report, a total of 37,261 shares of the Company are available for issue under Company's Share Option Scheme, which represents 0.01% of the issued share capital of the Company.

Maximum entitlement of each participant

The total number of shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of grant to each eligible participant must not exceed 1% of the shares in issue unless such grant is approved by the shareholders in a general meeting.

Period within which the shares must be taken up under an option

The offer of a grant of share options shall remain open for acceptance for a period of 28 days inclusive of and from the date of other offer.

Amount payable upon acceptance of the option and the period within the payment must be made

An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with the consideration of HK\$10 is received by the Company.

Basis of determining the exercise price of the option

The subscription price for the shares shall be determined by the directors at their discretion provided that it shall not be less than the higher of:-

- (a) the closing price of the shares as stated in Stock Exchange's daily quotations sheet on the date of offer;
- (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and
- (c) the nominal value of the shares on the date of offer.

Remaining life of the share option scheme

Subject to the early termination of the Scheme, the scheme shall be valid and effective until the close of business of the Company on the which falls ten (10) years after the adoption date on 10 June 2003.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts to which the company or its subsidiaries was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted until now.

SUFFICIENCY OF PUBLIC FLOAT

The trading of shares of the Company was resumed on 9 March 2007 after placement of 54,700,000 existing shares to public by Chinese Success. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the public float as required under the Listing Rules as at the date of this Annual Report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Ms. Cheung and Mr. Gorges jointly with Mr. Ng, a controlling shareholder and the Chairman of each of South China Industries and South China Holdings, hold shares in South China Holdings. South China Industries through its wholly-owned subsidiary, Micon Limited, owns 95.35% in the Company and South China Holdings indirectly owns 74.79% in South China Industries. Both Ms. Cheung and Mr. Gorges are directors of various subsidiaries of South China Industries and South China Holdings.

Certain subsidiaries of South China Industries are principally engaged in the manufacturing and trading of footwear products. As such, Ms. Cheung and Mr. Gorges were regarded to be interested in competing business of the Group. Likewise, Mr. Peter Ng is also an executive director of South China Industries and South China Holdings and a director of their various respective subsidiaries. He was regarded to be interested such competing business of the Group.

Ms. Wong Siu Yin, Elizabeth, Ms. Li Yuen Yu, Alice and Mr. Chiu Sin Chun are also independent non-executive directors of South China Industries and South China Holdings. They were not regarded to have any businesses competing with the business of the Group since they were not involved in the day-to-day running of the business of the Company, South China Industries and South China Holdings.

The Directors consider that the Group is capable of carrying on its business independently of and at arm's length from the business of South China Holdings and South China Industries as the Group has its own client base, product mix and production facilities, which are different from those of South China Holdings and South China Industries.

Subsequent to the balance sheet date, Ms. Cheung, Mr. Gorges, Mr. Peter Ng, Ms. Wong Siu Yin, Elizabeth, Ms. Li Yuen Yu, Alice and Mr. Chiu Sin Chun resigned as directors of the Company.

Save as disclosed above, all the directors including non-executive directors have no interests in the competing business of the Company.



REPORT OF THE DIRECTORS

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out under section headed the Corporate Governance Report on pages 5 to 8 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance by the Company with the Model Code for Securities Transactions are set out under section headed the Corporate Governance Report on page 7 of this annual report.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions:

- (a) On 6 November 2006, the Company entered into the Disposal Agreement with Micon and South China Industries to dispose of the Nority (BVI) Sale Shares and Nority (BVI) Sale Loan to Micon at a total consideration of HK\$75,555,000.
- (b) On 6 November 2006, the Company, Micon and Nority Limited ("Nority") entered into the Nority Subscription Agreement pursuant to which the Subscription Shares were allotted and issued to Micon at a consideration of HK\$3,520,000 (the "Subscription") and upon completion of the Subscription, Nority was converted from a wholly-owned subsidiary to a non-wholly-owned subsidiary of the Company, in which the Company and Micon were interested in 65% and 35% of the issued A Shares respectively.

Details of the above are included in the circular of the Company dated 18 December 2006.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2006, the sales to the Group's five largest customers accounted for 76% of the total sales and sales to the largest customers included therein amounted to 34%. Purchases from the Group's five largest suppliers accounted for less than 26% of the total purchases for the year.

None of the Directors of the Company or any of 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 a material interest in the Group's five largest customers.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors, namely Dr. Lu Yungang, Mr. Shaw Lut, Leonardo and Mr. Lee Cheuk Yin, Dannis (Chairman). The principal duties of the Audit Committee include the review of the Group's audit plan and process with the Auditors, the independence of Auditors and the Group's financial statements and system of internal control in accordance with its terms of reference, which is substantially the same as the CG Code.

The Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of Auditors in 2007 at the forthcoming Annual General Meeting.

The Group's annual results for the year ended 31 December 2006 were reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDITORS

Messrs. Ho and Ho & Company who acted as auditors of the Company for the years ended 31st December 2004 and 2005, have been removed and Messrs. Ernst & Young were appointed as auditors of the Company on 7th August 2006. Messrs. Ernst & Young resigned on 4th December 2006 and Messrs. SHINEWING (HK) CPA Limited were appointed on 5th December 2006 as auditors of the Company.

The consolidated financial statements for the year have been audited by Messrs. SHINEWING (HK) CPA Limited. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf Of The Board

He Xuechu

Chairman

Hong Kong, 20 April 2007