

Chairman's Message

In 2006, the Group reported satisfactory results comparing with previous corresponding year. The production capacity of 300,000 tonnes of Shanxi Changxing Yuci Coking Co., Limited ("Shanxi Changxing") entered into normal operation. The production efficiency of the factories continued to improve, and mass production commenced during the year. It is expected that Shanxi Changxing will contribute profit to the Group in the near future. Freight forwarding business and securities investment both displayed satisfactory performance, enabling the Group to record a net profit of HK\$10,601,000 for the entire year. During the year, the Group continued to actively implement the development strategy with coke business as its core operation.

The Group's Shanxi Changxing coke operation gradually enhanced during the year, with improved management efficiency and operation efficiency in the second half of the year. The first phase of 300,000 tonnes production capacity of Shanxi Changxing operated more smoothly in the year under review, after one year in operation, and started to narrow its loss. Shanxi Changxing's second phase of capacity expansion of additional 300,000 tonnes was scheduled to launch trial run in February this year and to commence commercial production in the second quarter. Shanxi Changxing has now reached its designed production capacity of 600,000 tonnes. Since the second phase's production capacity of 300,000 tonnes will commence commercial production in the second quarter, its contribution had not been reflected in the year under review; however the depreciation expenses associated with the related facilities had increased accordingly.

During the second half of the year, the operating environment of the coke industry in the PRC began to improve. The selling price of coke gradually rose to approximately RMB900 per tonne at the end of the year, representing an increase of approximately RMB200 from that of the corresponding period of the previous year. The price of coal, being the major raw material for production, began to stabilise in the third quarter.

In addition, the Group leveraged its unused capital to invest in the securities market, with the aim of maximising the capital usage of the Group. During the year under review, the securities market continued to display a positive outlook. The Group capitalised on the opportunities by disposing of most of the investment securities it held to cash in a profit of approximately HK\$8,438,000. In addition, the fair value of those securities not yet disposed of by the Group as at the end of the period was at a premium of approximately two percent on average, when compared with the price of the securities bought by the Group. During the year, although the Group's freight forwarding business benefited from better economic environment worldwide and reported a slight growth, it saw a retreat in its profit margin; however, this business remained relatively stable.

The Group signed a letter of intent with Shanxi Taixing Group Company Limited ("Taixing Group") and Char Coke (Asia) Investment Limited ("Char Coke Asia") in the previous year. Pursuant to the letter of intent, the Group would acquire 51% of the equity interests in Hejin City Taixing Mei Jiao Chemical Company Limited ("Taixing Mei Jiao"), a subsidiary of Shanxi Taixing Group. The transaction is still under the due diligence process.

Future prospects

The PRC economy continues to take off and grow rapidly in 2007. The steel industry experiences fast recovery, relieving the excess supply in the coke market. The coke industry is further consolidated, eliminating low-efficient and inferior production capacity after the market experienced large price fluctuations for almost a year. With the coke price gradually returning to a reasonable level, the Group expects the coke market in the PRC will move towards a healthier development.



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During the first quarter of the current year, the number of orders received by Shanxi Changxing was satisfactory, with an upward adjustment in price when compared with that of the corresponding period of the previous year. The second phase's production capacity of 300,000 tonnes of Shanxi Changxing was completed and put into operation in February this year. The plant's total production capacity of 600,000 tonnes can be fully utilised in the current year, which will further enhance the turnover of the coke business, while lowering the unit cost. The plant will also enable the Group to expand to high value-added by-products, including tar, gas etc, which in turn will contribute to continued increase in turnover.

Apart from its commitment to complete the acquisition of Taixing Mei Jiao, the Group will also seeks other appropriate business opportunities in Shanxi for expanding its business portfolio.

The Group realised satisfactory returns from its securities investment in 2006. The Group is now keeping an eye on the development of the securities market, in order to grasp any prudent investment opportunity to fully utilise its cash on hand.

We believe that with the expansion of our coke production capacity and a favourable market environment, we will be able to increase our turnover and continue to enhance the operating efficiency of Shanxi Changxing and the Group.

Ma Jun Li

Chairman

Hong Kong, 28th April, 2007