

## Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries and associates are set out in detail in notes 17 and 18, respectively, to the financial statements. There was no change in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2006 is set out in note 14 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 25.

The directors do not recommend the payment of any dividends in respect of the year ended 31 December 2006 (2005: Nil).

### SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2006, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 79. The summary is not part of the audited financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

### PROPERTIES UNDER DEVELOPMENT FOR SALE

Details of movements in the properties under development for sale of the Group are set out in note 23 to the financial statements.

### SHARE CAPITAL

Details of movements in the Company's share capital during the year and subsequent thereto, together with the reasons therefor, are set out in note 34 to the financial statements.

### RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 35 to the financial statements.

### DISTRIBUTABLE RESERVES

At 31 December 2006 the Company did not have any reserves available for distribution to equity shareholders of the Company. The Company's share premium account and capital redemption reserve in an aggregate amount of HK\$63,580,000 may be distributed in the form of fully paid bonus shares.

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### MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales, and the purchases attributable of the five largest suppliers accounted for less than 30% of the Group's total purchases.

### DIRECTORS

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

#### Executive Directors

Mr. Chan Lap Tat, Dickman	(resigned on 26 January 2006)
Mr. Chen Jung Hsin	(resigned as CEO and Executive Director on 14 July 2005 and 15 July 2005 respectively, and re-appointed as CEO & Executive Director on 6 January 2006)
Mr. Dai Xu	(appointed on 26 February 2007)
Mr. He Zhe	(appointed as Non-executive Director on 6 January 2006, re-designated as Executive Director on 8 February 2006 and resigned on 23 October 2006)
Mr. Li Wing Sum, Steven	(appointed on 6 January 2006)
Mr. Liang Wenjian	(appointed on 6 January 2006)
Mr. Long Changqing	(resigned on 7 January 2006)
Mr. Su Xixiong	(resigned on 15 August 2006)
Ms. Wong Lin Chooi	(ceased appointment on 6 March 2006)
Mr. Zhang Fan	(resigned on 14 August 2006)

#### Independent Non-executive Directors

Dr. Dong Ansheng	(appointed on 6 January 2006)
Dr. Lu Jianhua	(ceased appointment on 8 February 2006)
Mr. Ng Fuk Leung	(resigned on 8 February 2006)
Mr. Poon Chiu	(appointed on 8 February 2006)
Mr. Wu Fengchun	(appointed on 15 September 2006)
Dr. Xu Weidong	(resigned on 5 January 2006)

At the forthcoming annual general meeting ("AGM") of the Company, in accordance with Bye-law 100 of the Company's Bye-laws, Mr. Wu Fengchun and Mr. Dai Xu will retire, and being eligible, offer themselves for re-election.

At the AGM, in accordance with Bye-law 109(A) of the Company's Bye-laws, Mr. Chen Jung Hsin, Mr. Li Wing Sum, Steven and Dr. Dong Ansheng will retire and, being eligible offer themselves for re-election.

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### **DIRECTORS' SERVICE AGREEMENTS**

Mr. Chen Jung Hsin, Mr. Li Wing Sum, Steven and Mr. Liang Wenjian have each entered into a service agreement with the Company for an initial term of three years commencing on 6 January 2006 and the agreement will continue thereafter unless terminated in accordance with the terms and condition therein. Mr. Dai Xu has entered into a service agreement with the Company for a term of two years commencing on 26 February 2007 and the agreement will continue thereafter unless terminated in accordance with the terms and condition therein.

None of the Independent Non-executive Directors have entered into a service agreement with the Company. They have no specific term of office but shall be subject to retirement by rotation and be eligible for re-election at the AGM of the Company pursuant to the Bye-laws.

Save as disclosed above, no director proposed for re-election at the forthcoming AGM has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

None of the directors had any beneficial interest, either direct or indirect, in any significant contract to which the Company, any of its holding companies or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

### **DIRECTORS' INTERESTS IN EQUITY SECURITIES**

At 31 December 2006, none of the directors, chief executive nor their associates, had any interests or short position in any shares, underlying shares or rights to subscribe for the securities of the Company and its associated corporations, as recorded in the register maintained by the Company under Section 352 of the Securities and Futures ordinance (the "SFO"), or 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 Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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### SUBSTANTIAL SHAREHOLDERS

At as 31 December 2006, the following parties were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Name of substantial shareholder	Note	No. of ordinary shares of HK\$0.10 each			Shareholding percentage
		Personal interests	Corporate interests	Total	
Mr. Liang Wenguan ("Mr. Liang") Gree International Holding Limited ("Gree")	1	125,412,000	723,970,000	849,382,000	28.21%
Angklong Ltd.	2	–	379,053,963	379,053,963	12.59%
Mr. Chan Boon Ning, John	3	42,584,000	379,053,963	421,637,963	14.01%

*Note 1:* Madex International Company Limited, a company which is 100% owned by Mr. Liang, has charged 723,970,000 Shares to Gree, which is thus deemed to be interested in the said shares. Mr. Wang Gang and Mr. Dong Taijin, each holding 50% of the issued share capital of Gree, are severally deemed to be interested in all 723,970,000 Shares, representing 24.05% of the issued shares capital of the Company as at 31 December 2006.

*Note 2:* As disclosed by Maxwick Investment Ltd. on 19 March 2002, Angklong Ltd. had charged 422,133,000 shares of the Company to Maxwick Investment Ltd., a company which is 99.99% owned by Ms. Leong On Kei, Angela. Thus, Ms. Leong On Kei, Angela who therefore is deemed to be interested in the said 422,133,000 shares, representing 14.02% of the issued share capital of the Company as at 31 December 2006. The shareholding of Angklong Ltd. was subsequently reduced to 379,053,963 shares.

*Note 3:* Mr. Chan Boon Ning, John, who holds the entire issued share capital of Harrio Assets Ltd., which in turn holds the entire issued share capital of Angklong Ltd., is deemed to be interested in the 379,053,963 shares, which were held by Anklong Ltd.

As at 31 December 2006, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

### PRE-EMPTIVE RIGHTS

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

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the year.

### NON-ADJUSTING POST BALANCE SHEET EVENTS

Details of the significant non-adjusting post balance sheet events of the Group are set out in note 42 to the financial statements.

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### **MANAGEMENT CONTRACTS, CONNECTED TRANSACTIONS AND MATERIAL RELATED PARTY TRANSACTIONS**

Details of the management contracts, connected transactions and material related party transactions are provided in note 41 to the financial statements.

### **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date hereof, there is sufficient public float of not less than 25% of the Company's issued shares as required by the Listing Rules.

### **AUDITOR**

CCIF CPA Limited retires and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chen Jung Hsin**

*CEO & Executive Director*

Hong Kong, 20 April 2007