

Report of the Directors

The Directors present their report together with 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 and the activities of its subsidiaries are set out in note 18 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2006.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

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

RESERVES

As at 31 December 2006, details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

The Company's reserves available for distribution to shareholders amounted to approximately RMB58,236,000 (2005: approximately RMB105,652,000).

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 60 of this annual report.

DIRECTORS

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

Executive Directors

Mr. Chen Jun	(Appointed on 6 March 2007)
Mr. Zhao Yun	(Appointed on 6 March 2007)
Mr. Sun Lianggui	(Resigned on 27 March 2007)
Mr. Wang Zhaobo	(Resigned on 5 October 2006)
Ms. Sun Xianfang	(Resigned on 5 October 2006)
Mr. Wang Jiaqing	(Resigned on 5 October 2006)
Mr. Zhou Zhongdong	(Resigned on 27 March 2007)

Independent non-executive Directors

Mr. Hung, Randy King Kuen
Mr. Wang Yuechao
Mr. Wei Zhiqiang

In accordance with Article 87(1) of the Company's Articles of Association ("Articles of Association"), Mr. Wang Yuechao, Mr. Wei Zhiqiang will retire from office as Directors at the forthcoming annual general meeting ("AGM") and although being eligible, they will not offer themselves for re-election. The Board has proposed Mr. Qi Facheng and Mr. Chen Wenping to be appointed as independent non-executive Directors at the forthcoming AGM.

Mr. Chen Jun and Mr. Zhao Yun, appointed by the Board on 6 March 2007, will retire at the forthcoming AGM in accordance with Article 86(3) of the Articles of Association and, being eligible, offer themselves for re-election.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and the Company considers the independent non-executive Directors to be independent.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of this Annual Report.

DIRECTORS' SERVICE CONTRACT

Each of the current executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 6 March 2007, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The basic annual salaries of the executive Directors are as follows:

Mr. Chen Jun	RMB500,000.00
Mr. Zhao Yun	RMB250,000.00

Each of the independent non-executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 27 July 2004, and will continue thereafter until terminated by not less than two months' notice in writing served by either party on the other. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association.

Save as aforesaid, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares and underlying shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

Name of Directors	Capacity	Number of shares held (Long Position)	Approximate percentage of the issued share capital of the Company
Mr. Sun Lianggui (<i>Note</i>)	Interest of a controlled corporation	182,216,113	45.6%

Note:

These shares were held by Apex Faith Management Limited, a British Virgin Islands company wholly-owned by Sun Lianggui. Pursuant to a sale and purchase agreement dated 31 January 2007, Apex Faith Management Limited sold all its 182,216,113 shares to Fine Mean Investments Limited, a British Virgin Islands company wholly-owned by Chen Jun, an executive Director of the Company at HK\$18 million.

Save as disclosed above, at 31 December 2006, none of the Directors and chief executives of the Company or their associates had 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 the SFO) which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Directors' and chief executives' interests in shares and underlying shares" above, 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 a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director during the year had a beneficial interest, either direct or indirect, in any contract of significance (as defined in Appendix 16 of the Listing Rules) to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, save as disclosed in the paragraph headed "Directors' and chief executives' interests in shares and underlying shares" above, the Company had not been notified of any other persons (other than a Director and chief executive of the Company) who had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2006	2005
	%	%
Percentage of purchases:		
From the largest supplier	18%	47.4%
From the five largest suppliers	65%	80.0%
Percentage of turnover:		
From the largest customer	21%	34.1%
From the five largest customers	60%	74.5%

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers nor the five largest suppliers.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group had 32 employees (2005: 151), most of whom are based in the head office of the Group in Qingdao City of Shandong Province in the PRC. The number of workers employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the year ended 31 December 2006 was RMB10,030,000 (2005: RMB15,317,000).

RETIREMENT BENEFIT PLANS

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to income statement of approximately RMB1,635,000 (2005: RMB1,025,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 27 July 2004 under which the Directors may, at their discretion, grant options to employees, including any Directors or their subsidiaries to subscribe for shares of the Company, subject to the terms and conditions stipulated therein. The details of the share option scheme are set out in note 30 to the financial statements. As at the date of this report, the Company had not granted any option under the share option scheme.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S SECURITIES

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

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with such code of conduct throughout the year ended 31 December 2006.

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital are held by the public at all times from 1 January 2006 up to the date of this report.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. The Group's compliance with the code provisions is set out in the Corporate Governance Report from page 17 to page 21 of this annual report.

POST BALANCE SHEET EVENTS

On 31 January 2007, Apex Faith Management Limited (which was solely beneficially owned by Mr. Sun Lianggui) and Fine Mean Investments Limited (which was solely beneficially owned by Mr. Chen Jun) entered into a share transfer agreement (the "Share Transfer Agreement") pursuant to which Apex Faith Management Limited sold a total of 182,216,113 shares of the Company to Fine Mean Investments Limited for a total consideration of HK\$18 million. Completion of the Share Transfer Agreement took place on 9 February 2007. Under Rule 26.1 of the Hong Kong Code on Takeovers and Mergers, Fine Mean Investments Limited and other parties acting in concert with it were required to make a mandatory cash offer for all the issued shares of the Company not already owned by it or agreed to be acquired by it and parties acting in concert with it. Upon completion of the mandatory offer, Fine Mean Investments Limited and parties acting in concert with it in aggregate hold 210,834,637 shares of the Company, representing approximately 52.7% of the issued share capital of the Company. Subsequent to completion of the mandatory offer, Mr. Sun Lianggui and Mr. Zhou Zhongdong resigned as executive directors and Mr. Chen Jun and Mr. Zhao Yun were appointed as executive directors of the Company.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2006, the Directors were not aware of any business or interest of the Directors or any management shareholder (as defined under the Main Board Listing Rules) of the Company and their respective associates that had completed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

AUDITORS

Deloitte Touche Tohmatsu ("Deloitte") had acted as auditors of the Company for the years ended 31 December 2004 and 31 December 2005. On 15 March 2007, Deloitte resigned as auditors of the Company and the Board appointed CCIF CPA Limited as the new auditors of the Company to fill the vacancy following the resignation of Deloitte to hold office until the conclusion of the next general meeting of the Company. At an extraordinary general meeting of the Company held on 10 April 2007, an ordinary resolution was duly passed by the shareholders of the Company approving the appointment of CCIF CPA Limited as auditors of the Company.

CCIF CPA Limited shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF CPA Limited as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chen Jun

Chairman

Hong Kong, 24 April 2007