

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 32 and 15 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 26.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group is set out on page 70.

SHARE CAPITAL

Details of the movements of the Company's share capital are set out in note 26 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2006.

EMOLUMENT POLICY

The remuneration policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided, having regard to their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and the desirability of performance-based remuneration.

The Company and its subsidiaries have adopted share option schemes as an incentive to directors and eligible employees, details of the schemes are set out in note 27 to the consolidated financial statements.

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PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors

Mr. Zhang Xi	(appointed on 11 December 2006)
Ms. Zhang Huafang	(appointed on 11 December 2006)
Mr. Cai Duanhong	(appointed on 11 December 2006)
Ms. Catherine Chen	(appointed on 2 January 2007)
Dr. Yang Ding-Yuan	(resigned on 2 January 2007)
Ms. Meng Tung-Mei, Grace	(resigned on 2 January 2007)

Independent Non-executive Directors

Mr. Hong Po Kui, Martin	(appointed on 11 December 2006)
Mr. Yam Tak Fai, Ronald	(appointed on 11 December 2006)
Mr. Wong Man Hin, Raymond	(appointed on 11 December 2006)
Professor Edward S. Yang	(resigned on 2 January 2007)
Mr. Lo I-Wang	(resigned on 2 January 2007)
Ms. Chang Jing-Yue	(resigned on 2 January 2007)
Mr. Chan Ting-Fung, Tim	(resigned on 21 February 2006)

In accordance with Bye-law 86(2) of the Company's Bye-laws, all directors, being appointed as executive directors and independent non-executive directors during the year, holds such office until the forthcoming annual general meeting, being eligible, offer themselves for re-election.

The Company has received from each independent non-executive Director 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") and the Company considers such directors to be independent.

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DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interest of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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 Companies, were as follows:

Long Positions

Ordinary shares of US\$0.001 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Zhang Xi	Held by controlled corporation (<i>Note</i>)	4,691,882,000	51.01%

Note: Mr. Zhang Xi, through his wholly owned company, Civil Talent International Limited ("CTIL"), owns 4,691,882,000 shares of the Company as at 31 December 2006.

Other than as disclosed above, none of the directors nor their associates has any interest in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2006.

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SHARE OPTIONS

Share options to subscribe Company's shares

Pursuant to the Company's share option scheme adopted on 19 November 2001, the directors of the Company may, at their discretion, grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group. Details of the Company's share option scheme are set out in note 27 to the financial statements.

During the year, the movements in the number of options outstanding which have been granted to the directors, executives and employees of the Company under the Company's share option scheme were as follows:

	Date of grant	Exercise period	Exercise price HK\$	Number of share options		
				At 1 January 2006	Surrendered during the year (Note)	At 31 December 2006
Directors						
Dr. Yang Ding-Yuan	30 April 2002	30 April 2002- 29 April 2012	0.050	50,000,000	(50,000,000)	-
Ms. Meng Tung-Mei Grace	30 April 2002	30 April 2002- 29 April 2012	0.050	50,000,000	(50,000,000)	-
Professor Edward. S Yang	30 April 2002	30 April 2002- 29 April 2012	0.050	50,000,000	(50,000,000)	-
Mr. Chan Ting-Fung, Tim	30 April 2002	30 April 2002- 29 April 2012	0.050	50,000,000	(50,000,000)	-
Sub-total				200,000,000	(200,000,000)	-
Executives and employees						
	30 April 2002	1 January 2003- 29 April 2012	0.050	31,200,000	(31,200,000)	-
	30 April 2002	1 January 2004- 29 April 2012	0.050	23,400,000	(23,400,000)	-
	30 April 2002	1 January 2005- 29 April 2012	0.050	23,400,000	(23,400,000)	-
	24 January 2003	27 June 2003- 23 January 2013	0.021	60,000,000	(60,000,000)	-
Sub-total				138,000,000	(138,000,000)	-
Grand total				338,000,000	(338,000,000)	-

Note: The directors of the Company surrendered the share options granted to them by the Company during the year.

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ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements 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.

DIRECTORS' SERVICE CONTRACTS

There are no service contracts which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2006, the register of the substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following shareholder's interests, being 5% or more of the issued share capital:

Name of shareholder	Number of shares held in the Company			Percentage of the issued share capital of the Company
	Direct interests	Deemed interests	Total interests	
Civil Talent International Limited ("CTIL")	4,691,882,000 (L)	–	4,691,882,000	51.01%
Mr. Zhang Xi (<i>Note</i>)	–	4,691,882,000 (L)	4,691,882,000	51.01%

L: Long Position

Note:

CTIL, a company incorporated in British Virgin Islands, is wholly owned by Mr. Zhang Xi. Mr. Zhang Xi is therefore, by virtue of the SFO, deemed to be interested in the Company's shares in which CTIL is interested.

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

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MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentages of purchases attributable to the Group's five largest suppliers combined and the sales made to the Group's five largest customers combined were less than 30% of the Group's total value of purchases and sales, respectively.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owns more than 5% of the Company's issued share capital has a beneficial interest in the share capital of any of the above major customers and suppliers of the Group.

CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Other than the share options as set out in note 27 to the consolidated financial statements respectively, the Company had no outstanding convertible securities, options or other similar rights as at 31 December 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company, nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2006.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

During the year, the Company has adopted a code of conduct regarding Directors' securities transactions on terms less exacting than the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules. After having made specific enquiry of all Directors of the Company, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

AUDIT COMMITTEE

The Company established an audit committee in year 1998 and has formulated its written terms of reference in accordance with the requirements of the Stock Exchange. The audit committee, which includes three independent non-executive directors, is to review the reporting of financial and other information with the management, the accounting policies and the systems of internal control adopted by the Company, risk management and the effectiveness and objectivity of the audit process and to discuss auditing and financial reporting matters.

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REMUNERATION COMMITTEE

The Company had established a remuneration committee with written terms of reference pursuant to the provisions set out in the Code. The committee comprises three independent non-executive directors and the executive Director, Mr. Zhang Xi. The remuneration committee is principally responsible for formulation and making recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior management.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

ZHANG XI

Chairman

Hong Kong, 24 April 2007