

# REPORT OF DIRECTORS

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 34 to the consolidated 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 on page 29.

The directors now recommend the payment of a final dividend of HK3.7 cents per share to the shareholders on the register of members on 21 May 2007 amounting approximately to HK\$40,580,000 on the basis that no further shares are issued or repurchased prior to that date.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's financial information is set out on page 4.

## PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the Group's share capital are set out in note 25 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2006, the amount of the Company's reserves available for distribution to shareholders was approximately HK\$52,599,000, comprising of the contributed surplus of approximately HK\$29,412,000 and the retained profit of approximately HK\$23,187,000.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 77.9% of the total sales for the year and sales to the largest customer included therein amounted to 36.3%. Purchases from the Group's five largest suppliers accounted for 63.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to 22%.

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As far as the directors are aware, neither the directors, their associates, nor those shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital), had any interest in the five largest customers and suppliers of the Group.

## DIRECTORS

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

### Executive directors:

Mr. Wang Xubing  
Mr. Wang Zhiqiang  
Dr. Shi Chongming  
Mr. Siu Kwok Leung

### Non-executive director:

Mr. Wang Nengguang

### Independent non-executive directors:

Mr. Lee Kit Wah  
Prof. Li Weian  
Mr. Pang Chor Fu

In accordance with the provisions of the Company's Articles of Association, one third of the directors for the time being will retire by rotation and being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

All non-executive directors have been appointed for a term of one year and either the non-executive director or the Company may terminate the appointment at any time by giving the other party at least one month's notice in writing.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding Company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2006 or at any time during the year.

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## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE AND SHARE OPTIONS

As at 31 December 2006, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong) (the "SFO") as recorded in the register maintained 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 Companies ("Model Code") were as follows:

### (a) Interests in the Company

Name of Director	Capacity/ Nature of Interest	No. of shares of the Company	Notes	Approximate percentage of shareholding
Mr. Wang Xubing	Interest of a controlled corporation	563,000,000 (L)	1	51.34%
Mr. Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)	2	51.34%
Dr. Shi Chongming	Beneficial owner	4,043,200 (L)		0.37%
Mr. Siu Kwok Leung	Beneficial owner	4,280,000 (L)		0.39%

Notes:

- 1 These shares are beneficially owned by China Way International Limited ("China Way"). By virtue of his 51% shareholding interest in China Way, Mr. Wang Xubing is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.
- 2 These shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way, Mr. Wang Zhiqiang is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.
- 3 The letter "L" denotes a long position in shares.

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## (b) Interests in associated corporations of the Company

Name of associated corporation	Name of director of the Company	Capacity/ Nature of interest	No. of ordinary shares of US\$1.00 each	Percentage of shareholding
China Way	Mr. Wang Xubing	Beneficial owner	51 (L)	51%
China Way	Mr. Wang Zhiqiang	Beneficial owner	49 (L)	49%

Note: The letter "L" denotes a long position in shares.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register maintained by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31 December 2006, no option was granted to Directors to acquire shares in the Company. At no time during the year were rights to acquire benefits by means of the acquisition of shares in 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 that enabled any Directors to acquire such rights in any other body corporate.

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## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2006, the following parties (other than the Directors or the chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested, or had short positions, in the shares and underlying shares of the Company.

Name of shareholder	Capacity/ Nature of Interest	No. of shares of the Company	Notes	Approximate percentage of shareholding
China Way	Beneficial owner	563,000,000 (L)	1	51.34%
Madam Zhang Yue	Interest of spouse	563,000,000 (L)	2	51.34%
Madam Yuan Yue Ling	Interest of spouse	563,000,000 (L)	3	51.34%

Notes:

- (1) Mr. Wang Xubing and Mr. Wang Zhiqiang, directors of the Company, are also the directors of China Way.
- (2) Madam Zhang Yue is the wife of Mr. Wang Xubing and is deemed to be interested in the 563,000,000 shares in which Mr. Wang Xubing is deemed or taken to be interested for the purposes of the SFO.
- (3) Madam Yuan Yue Ling is the wife of Mr. Wang Zhiqiang and is deemed to be interested in the 563,000,000 shares in which Mr. Wang Zhiqiang is deemed or taken to be interested for the purposes of the SFO.
- (4) The letter "L" denotes a long position in shares.

Save as disclosed above as at 31 December 2006, there was no other person (not being a Director or chief executive of the Company) who had any interest or short position in the Shares or underlying shares of the Company where were recorded in the register required to be kept under section 336 of the SFO.

## SHARE OPTION SCHEMES

Particulars of the Company's share option schemes and details of movements in the Company's share options during the year to subscribe for shares of HK\$0.025 each in the Company granted under the share option schemes are, set out in note 26 to the financial statements.

As disclosed in note 26 to the financial statements, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 56,184,000 (as adjusted after share subdivision) (2005: 13,128,000). The fair value of the options granted totalled approximately HK\$22,724,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

- (1) an expected volatility of 39%-44%;
- (2) expected dividend yield of 2.5%;

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- (3) the estimated expected life of the options granted during the year is 4 to 6.25 years; and
- (4) the riskless rate the corresponds to the option lifetime at the date of the options granted is 2.48%-4.07%.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of on an option varies with different variables of certain subjective assumptions.

During the year, an amount of share option expense of HK\$10,709,000 has been recognised, with a corresponding adjustment recognised in the Group's share option reserve.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section "share option scheme", at no time during the year was the Company, its holding company or any of its subsidiaries or fellow 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.

### EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by Salary Review Committee on the basis of their merit, qualifications and competence.

The emolument of directors of the Company are decided by Salary Review Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to eligible employees, details of the scheme are set out in note 26 to the consolidated financial statements.

### PRE-EMPTIVE RIGHTS

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

### SUFFICIENCY OF PUBLIC FLOAT

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

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## CORPORATE GOVERNANCE

The Company has applied and complied with all the provisions under the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), except the that Mr. Wang Zhiqiang has been both the Chairman and Chief Executive Officer of the Company. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

The Company has adopted a code of conduct for securities transactions and dealing (the Code of Conduct) by directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule. Specific enquiry has been made to all directors of the Company who have confirmed their compliance with the Code of Conduct regarding securities transactions.

The Company has received a written confirmaiton in respect of independence from each of the independent non-executive director of the Company in compliance with rule 3.13 of the Listing Rules and the Company considers that each of them to be independent.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## AUDITORS

Deloitte Touche Tohmatsu have acted as auditors of the Company for the past four years.

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

On behalf of the Board

**Wang Zhiqiang**

*Director*

Hong Kong, 23 April 2007