

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

During the year, the Group acquired 70% equity interests in Beilei (Tianjin) Dairy Co., Ltd., a company engaged in the production and sale of dairy products, for a total consideration of approximately HK\$52.9 million.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 63.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 64. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 24 to the financial statements. In order to finance the Group's expansion and general operations, the Company issued 100,000,000 ordinary shares of HK\$0.10 each, by way of rights issue for a consideration of HK\$0.54 per share on the basis of one new share for every two ordinary shares then held. The right issue was completed on 18 August 2005. The new shares issued pursuant thereto rank pari passu with the existing shares in all respects.

The Company had no share options in issue during the year.

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution amounted to HK\$12,266,000, representing the share premium account of the Company of HK\$70,342,000 less the accumulated losses as at 31 December 2005 of HK\$58,076,000. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 66% of the total sales for the year and sales to the largest customer included therein amounted to 33%. Purchases from the Group's five largest suppliers accounted for 30% of the total purchases for the year and purchases from the largest supplier included therein amounted to 9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Lo Peter	(appointed on 26 May 2005)
Mr. Sun David Lee	(appointed on 26 May 2005)
Mr. Au Peter Jeva	(appointed on 26 May 2005)
Mr. Chan Wai Kin, Benito	(appointed on 25 January 2005 and retired on 24 June 2005)
Mr. Tse Chung Sing	(appointed on 25 January 2005 and retired on 24 June 2005)
Mr. Wong Chor Sang	(resigned on 24 June 2005)
Mr. Kwok Kee Ho, Danny	(retired on 24 June 2005)
Mr. Wong Chor Wo	(resigned on 21 February 2005)
Ms. Andres Rosita	(resigned on 21 February 2005)

Non-executive directors:

Mr. Chau Wai-Kau	(appointed on 26 May 2005)
Mr. Yeung Ting-Lap Derek Emory	(appointed on 26 May 2005)
Mr. Greer Thomas	(appointed on 26 May 2005)
Mr. Li Wentao	(appointed on 23 September 2005)

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Independent non-executive directors:

Dr. Loke Yu	(appointed on 24 June 2005)
Dr. Leung Kwan-Kwok	(appointed on 26 May 2005)
Mr. Zuchowski Sam	(appointed on 26 May 2005)
Mr. Yue Kwai Wa, Ken	(appointed on 25 January 2005 and retired on 24 June 2005)
Mr. Chan Sheung Kwan	(resigned on 24 June 2005)
Mr. Yang Xi	(retired on 24 June 2005)

Subsequent to the balance sheet date, on 1 January 2006, Mr. Au Peter Jeva and Mr. Greer Thomas resigned as directors of the Company.

In accordance with article 116 of the Company's articles of association, Mr. Chau Wai-Kau and Dr. Leung Kwan-Kwok will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors and independent non-executive directors are subject to retirement by rotation under article 116 of the Company's articles of association.

In accordance with article 99 of the Company's articles of association, Mr. Li Wentao will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting. Directors appointed to fill a casual vacancy shall hold office only until the first annual general meeting after their appointment, and shall be subject to re-election by the shareholders under article 99 of the Company's articles of association.

The Company has received annual confirmations of independence from Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 and 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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 Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group. Details of the directors' fees are set out in note 11 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

None of the directors or chief executive had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded 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 Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted by the shareholders of the Company by way of written resolution passed on 29 December 2000. The Scheme was no longer in compliance with the amended Chapter 17 of the Listing Rules which came into effect on 1 September 2001. The directors will consider to amend the Scheme or to terminate the Scheme and adopt a new share option scheme. The Company had no share options in issue during the year and up to the date of this report.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
Orientalite Investments Limited (<i>Note</i>)	225,000,000	75.00
China Enterprise Capital Limited (<i>Note</i>)	225,000,000	75.00
Sinopac Capital Limited	15,326,999	5.11

Note:

At 31 December 2005, Orientalite Investments Limited ("Orientalite") was owned as to 80% by China Enterprise Capital Limited, as to 10% by Starauto Investments Limited ("Starauto") and as to 10% by Rackham Holdings Limited ("Rackham"). China Enterprise Capital Limited is deemed to have an interest in the shares in which Orientalite is interested under the SFO. Subsequent to the balance sheet date, on 19 January 2006, China Enterprise Capital Limited acquired the shares of Orientalite held by each of Starauto and Rackham, and hence, Orientalite became wholly owned by China Enterprise Capital Limited on such date.

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Subsequent to the balance sheet date, on 19 January 2006, Orientelite reduced its share interests in the Company to 195,000,000 shares, representing 65% of the Company's issued share capital. Pursuant to a placing and subscription agreement dated 7 April 2006, 20,000,000 existing shares of the Company held by Orientelite were placed to various independent investors at a price of HK\$0.54 ("Top-up Placing") and 20,000,000 new shares will be issued to Orientelite at the same price upon completion of the Top-up Placing. As at the date of this report, the Top-up Placing has not yet completed.

Save as disclosed above, as at 31 December 2005, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

AUDITORS

RSM Nelson Wheeler retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chairman

Hong Kong
20 April 2006