

DIRECTORS' REPORT

The Directors present their first annual report and the audited consolidated (or combined) financial statements for the year ended 31 December 2006.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in Cayman Islands on 14 July 2006.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange of Hong Kong Limited, the Company became the holding company of the companies now comprising the Group on 1 September 2006. Details of the reorganisation are set out in the prospectus dated 27 November 2006 issued by the Company.

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited with effect from 8 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 24 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 39.

The Directors recommend the payment of a final dividend of RMB0.04 per share to the shareholders whose names appear on the register of members on 25 May 2007, and the retention of RMB54,372,000 being the remaining profit for the year.

TRADING RESULT AND PUBLISHED FORECAST

The Group's consolidated profit for the year amounted to RMB83,650,000, which represents an excess of approximately 5% over the forecast profit mentioned in the Company's prospectus dated 27 November 2006. The difference is principally attributable to the increase in interest income arising from the funds locked up during the period of initial public offer.

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Group's transactions with its major suppliers and customers during the year are set out below:

In 2006, the Group's largest supplier accounted for 20.0% (2005: 11.4%) and the 5 largest suppliers combined accounted for 46.0% (2005: 39.5%) of the total purchase of the Group.

Aggregate sales attributable to the Group's five largest customers were less than 30% of the total turnover of the Group in both the years of 2005 and 2006.

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At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

FIXED ASSETS

Details of movements of property, plant and equipment of the Group, during the year in the fixed assets are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 19 to the consolidated financial statements.

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has incurred a loss in the amount of RMB11,614,632 for the period from 14 July 2006 (the date of incorporation) to 31 December 2006 and no other reserves were available for distribution to shareholders as at 31 December 2006. In order to ensure that there will be sufficient distributable reserves for payment of the final dividends declared, the Company had requested its subsidiaries to make profit distribution before the month end of May 2007.

DIRECTORS

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

Executive Directors

Mr. Fang James (appointed on 14 July 2006)

Mr. Fang Shengkang (appointed on 14 July 2006)

Non-executive Directors

Mr. Lu Songkang (appointed on 14 July 2006)

Mr. Chai Junqui (appointed on 14 July 2006)

Independent non-executive Directors

Mr. Wu Tak Lung (appointed on 16 November 2006)

Mr. Cheng Houbo (appointed on 16 November 2006)

Mr. Shen Jianlin (appointed on 16 November 2006)

In accordance with the provisions of the Company's Articles of Association, Messrs. Fang James, Chai Junqui and Wu Tak Lung will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. A circular containing the biographical details of the director candidates and the notice of the annual general meeting will be sent to Shareholders of the Company.

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DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 16 November 2006. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing.

Each of the non-executive Directors is appointed for an initial term of three years commencing from 14 July 2006 and each of the independent non-executive Directors is appointed for an initial term of three years commencing from 16 November 2006.

No director 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 payment of compensation, other than normal statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES

As at 31 December 2006, the interests and short positions of the Directors and the chief executives in the shares, underlying shares and debentures of the Company or of any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Company/name of associated company	Capacity	Number of issued ordinary shares held (Note 1)	Approximate percentage of issued share capital of the Company/ associated company
Mr. Fang James (Note 2)	The Company	Interest in a controlled corporation (note 2)	476,000,000 (L)	66.99%
Mr. Fang James (Note 3)	SeeSi Universal Limited	Beneficial owner	33 shares of US\$1.00 each (L)	46.48%
Mr. Fang Shengkang (Note 2)	The Company	Interest in a controlled corporation (note 2)	476,000,000 (L)	66.99%
Mr. Fang Shengkang (Note 3)	SeeSi Universal Limited	Beneficial owner	32 shares of US\$1.00 each (L)	45.07%
Mr. Lu Songkang (Note 3)	SeeSi Universal Limited	Beneficial owner	5 shares of US\$1 each (L)	7.04%
Mr. Chai Junqui (Note 3)	SeeSi Universal Limited	Beneficial owner	1 share of US\$1 each (L)	1.41%

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Notes:

1. The letter "L" represents the person's long position in such shares.
2. The entire issued share capital of SeeSi Universal Limited is owned as to 46.48%, 45.07%, 7.04% and 1.41% by Mr Fang James, Mr Fang Shengkang, Mr Lu Songkang and Mr Chai Junqi, respectively, who are also directors of the Company. As such, each of Mr Fang James and Mr Fang Shengkang is deemed to be interested in all the shares held by SeeSi Universal Limited in the Company.
3. SeeSi Universal Limited is the holding company of the Company and therefore is an associated corporation of the Company. As such, Mr Fang James, Mr Fang Shengkang, Mr Lu Songkang and Mr Chai Junqi, as directors of the Company, are required to disclose their interests in SeeSi Universal Limited.

Other than as disclosed above, none of the Director, chief executives had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2006.

SHARE OPTIONS SCHEME

The Company adopted a share option scheme on 16 November 2006 (the "Share Option Scheme"), a summary of the principal terms of which was set out below:—

- (1) the purpose of the scheme:

The purposes of the Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants and advisers of the Group and to promote the success of the business of the Group.

The Share Option Scheme provides that the Company may specify a minimum holding period and performance conditions which must be satisfied before options can be exercised by the option holders. In addition, the basis for the determination of the exercise price of the options has been set out in the Share Option Scheme. The Board considers that the aforesaid criteria and the terms of the Share Option Scheme will serve to encourage option holders to acquire proprietary interests in the Company.

- (2) the participants of the scheme:

The Board may offer any employee (whether full-time or part-time), director, consultant or adviser of the Group (the "Eligible Person") options to subscribe for Shares at a price calculated in accordance with and subject to the terms of the Share Option Scheme.

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- (3) the total number of securities available for issue under the scheme together with the percentage of the issued share capital that it represents as at the date of the annual report:

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company shall not exceed such number of Shares as shall represent 30% of the issued share capital of the Company from time to time. The total number of issued share in the capital of the Company was 710,600,000 shares at the date of this Annual Report.

- (4) the maximum entitlement of each participant under the scheme:—

- (i) Any options granted to an Eligible Person who is a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates shall be approved by the independent non-executive Directors and in any event if the proposed grantee is an independent non-executive Director, the vote of such grantee shall not be counted for the purposes of approving such grant.
- (ii) Any options granted to an Eligible Person who is a substantial Shareholder (as defined in the Listing Rules) or independent non-executive Director or their respective associates, which will result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted (including options whether exercised, cancelled or still outstanding) to such person in the period of 12 months up to and including the date of such grant:
 - representing in aggregate over 0.1% of the issued share capital of the Company; and
 - having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000.00,

such further grant of options must be approved by the Shareholders in general meeting by poll convened and held in accordance with the Articles of Association of the Company and Rules 13.39(5), 13.40, 13.41 and 13.42 of the Listing Rules. All connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour at such general meeting. The aforementioned circular shall contain such information as required under rule 17.04 of the Listing Rules.

- (5) the period within which the securities must be taken up under an option:—

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be notified by the Board to each option holder upon the grant of option, such period not to exceed 10 years from the Date of Grant of the relevant option (the "Exercise Period").

- (6) the amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:

The amount payable for the acceptance of an Option shall be the sum of HK\$1.00 which shall be paid upon acceptance of the offer of such Option.

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- (7) the minimum period, if any, for which an option must be held before it can be exercised:–

the minimum period, if any, for which an option must be held before it can be exercised is subject to such other term as shall be determined by the Board soon such Options shall be offered to the Participants.

- (8) the basis of determining the exercise price:– and

the amount payable for each Share to be subscribed for under an option in the event of the option being exercised shall be determined by the Board and shall be not less than the greater of:

- (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date, which must be a Business Day, of the written notice from the Company granting the option (the "Date of Grant"); and
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Date of Grant; and
- (iii) the nominal value of the Shares.

- (9) the remaining life of the scheme:–

the Share Option Scheme has a scheme period not to exceed the period of 10 years for 16 November 2006.

As at 31 December 2006, no options have been granted under the Share Option Scheme.

On 16 March 2007, the Directors resolved to grant share options pursuant to the Share Option Scheme adopted by the Company on 16 November 2006. On the same day, the Company granted share options entitling the holders to subscribe for a total of 5,000,000 shares of the Company (representing approximately 0.7% of the total issued share capital of the Company as at the date of this Annual Report) to the three independent non-executive directors of the Company and certain senior management of the Group (collectively the "Grantees") as an incentive and reward to the Grantees for their contribution to the Group.

The share options were granted at an exercise price of HK\$2.23 and the exercise period is such period not exceeding ten years from the date of the grant of the share options. The share options were granted to the Grantees on such terms that the Grantees may exercise up to a cumulative maximum of 20%, 40%, 60%, 80% and 100% of the total options granted to him or her at the anniversary of the first, second, third, fourth and fifth year respectively from the date of the grant until the expiry of the exercise period.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, 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.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company, its controlling shareholder, 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 the end of the year or at any time during the year.

MANAGEMENT CONTRACT

No management contracts in force during the year for the management and administration of the whole or any substantial part of the Group's business subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the interests or short positions of every person, other than a Director or chief executive of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name of shareholder	Capacity	Number of issued ordinary shares held Note	Approximate percentage of issued share capital of the Company
SeeSi Universal Limited (Note 1)	Beneficial owner	476,000,000 (L) (Note 2)	66.99%
Zhang Shuqing (Note 3)	Family interest	476,000,000 (L)	66.99%
Everest Capital Limited	Beneficial owner	53,488,000 (L)	7.86%

Notes:

- (1) The entire issued share capital of SeeSi Universal Limited is owned as to 46.48%, 45.07%, 7.04% and 1.41% by Mr Fang James, Mr Fang Shengkang, Mr Lu Songkang and Mr Chai Junqi, respectively, who are also directors of the Company.
- (2) The letter "L" represents the person's long position in such shares.
- (3) Madam Zhang Shuqing is the spouse of Mr Fang Shengkang, a director of the Company, Madam Zhang Shuqing is therefore deemed to be interested in the interests of Mr Fang Shengkang.

All the interests stated above represent long positions. Save as disclosed above, as at 31 December 2006, none of the substantial shareholders, other than directors or chief executives, of the Company had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive Directors are independent.

CONNECTED TRANSACTIONS

The Group has not engaged in any connected transactions (as defined in the Listing Rules) with controlling Shareholders, Directors or Chief executive and associates during the year.

INTERESTS IN COMPETITORS

No Directors or chief executives of the Company holds any interest in entities which competes with the Group in any aspects of its business.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is formulated by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration 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 directors and eligible employees, details of the scheme is set out in the Section headed "Share Option Scheme" in Appendix VI to the Prospectus of the Company dated 27 November 2006.

The Group operates a MPF Scheme under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to consolidated 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. No forfeited contribution is available to reduce the contribution payable in the future years as at 31 December 2006.

The Group's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in a state-managed retirement benefits scheme operated by the local government. The subsidiaries are required to contribute a specific percentage of their payroll costs to the retirement benefits schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

During the year, the total amounts contributed by the Group to the schemes and cost charged to the consolidated income statement represents contribution payable to the schemes by the Group at rates specified in the rules of the schemes.

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PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within knowledge of its directors as at the latest practicable date prior to the issue of the annual report, the Company has maintained a sufficient public float throughout the period from 8 December 2006 (date of listing) to 31 December 2006.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 25 to the consolidated financial statements.

USE OF PROCEEDS FROM THE NEW SHARE ISSUE

As at 31 December 2006, the Group had only utilised approximately of RMB10 million out of the proceeds from the new share issue to purchase a piece of land for new production plant. To the extent that the net proceeds from the Company's portion of new share issue are not immediately required for the purposes mentioned in the Company's Prospectus dated 27 November 2006, they were placed on short term interest-bearing deposits with licensed banks in Hong Kong or the PRC.

AUDITORS

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

By order of the Board of Directors

Fang James

Chairman

Hangzhou, Zhejiang, the PRC

18 April 2007