

Directors' Report

The board of directors (the "Directors") submit herewith their annual report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company's principal activities are investment holding and sales of jewellery products. The Group is principally engaged in production and sales of coal and coke products and side products and sales of jewellery products. Particulars of the subsidiaries are set out in note 18 to the financial statements. During the year, the Directors decided to cease the business of jewellery due to a strategic decision to focus the direction of the Group to energy sector. The sales clearance of jewellery was completed on 28 February 2007.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Group and the Company as at that date are set out in the financial statements on pages 20 to 61.

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

SHARE CAPITAL

Details of share capital of the Company as at 31 December 2006 are set out in note 33 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in note 35 to the financial statements.

The Company did not have any reserves available for distribution as at 31 December 2006, calculated under Section 79B of the Hong Kong Companies Ordinance.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOAN AND OTHER BORROWINGS

Particulars of bank loan and other borrowings of the Group and of the Company as at 31 December 2006 are set out in notes 27 to 32 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 62 of the annual report.

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RETIREMENT SCHEMES

The Group provides the mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees. Particulars of these retirement schemes are set out in note 3(s) to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

DIRECTORS

The directors during the year were:

Mr. WONG Lik Ping
Mr. SO Kwok Hoo
Mr. LI King Luk
Mr. KEE Wah Sze
Mr. CHOI Wai Yin
Mr. CHAN Pat Lam

In accordance with Article 98 of the Company's Articles of Association, Mr. Li King Luk, Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam shall hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam are independent non-executive directors. Mr. Kee Wah Sze and Mr. Chan Pat Lam were appointed for a one-year term expiring on 31 December 2007 and Mr. Choi Wai Yin was appointed for a 18-month term expiring on 31 December 2007.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of Mr. Wong Lik Ping's interest in contracts of significance in relation to the Group's business are set out in Note 30 and Note 31 to the financial statements.

Save as disclosed above, no other contracts of significance in relation to the Group's business to which the Company, its holding company or any of its 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.

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SHARE OPTION SCHEME

At the annual general meeting of the Company held on 20 June 2003, the equity holders of the Company approved the adoption of a new option scheme ("the Scheme") and to give the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution. The Scheme will expire on 20 June 2013. Other particulars of the Scheme are set out in note 34 to the financial statements.

At 31 December 2006, the number of shares in respect of which options had been granted under the Scheme was 104,000,000 (2005: NIL), representing approximately 5% (2005: NIL) of the shares of the Company in issue at that date. The total number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme and any other schemes of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on 20 June 2003 without prior approval from the equity holders of the Company. The number of shares in respect of which options may be granted to any individual in any 12-month period up to and including the date of grant of option shall not exceed 1% of the shares in issue, without prior approval from the shareholders of the Company. Options granted to a substantial equity holder or any independent non-executives of the Company in excess of 0.1% of the issued capital of the Company and with an aggregate value in excess of HK\$5 million must be approved in advance by the equity holders of the Company.

No consideration is payable on the grant of an option. An option may generally be exercised during the period commencing on the date of grant and expiring on the date to be determined by the Directors, but in any event not more than 10 years from the date of grant. The exercise price of options is to be determined by the Directors and is the highest of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, 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 the nominal value of the share on the date of grant.

The total number of securities available for issue under the Scheme as at 31 December 2006 was 104,080,000 (2005: 208,080,000) which represented 5% (2005:10%) of the issued share capital of the Company at 31 December 2006.

At 31 December 2006, the option holders of the Company had the following interest in unlisted options to subscribe for shares of the Company granted under the Scheme. The vesting period of the options is two year from the date of grant and the options are then exercisable within a period of next five years. Each option gives the option holder the right to subscribe for one ordinary share of HK\$0.1 each of the Company.

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SHARE OPTION SCHEME (cont'd)

Name	No. of options granted during the period	No. of shares acquired on exercise of options during the period	No. of options outstanding at the period end	Grant date	Period during which options are exercisable	Exercise price per share
Directors						
Wong Lik Ping	2,000,000	–	2,000,000	26 April 2006	26 April 2008 to 25 April 2013	HK\$1.50
So Kwok Hoo	6,500,000	–	6,500,000	26 April 2006	26 April 2008 to 25 April 2013	HK\$1.50
Chan Pat Lam	800,000	–	800,000	26 April 2006	26 April 2008 to 25 April 2013	HK\$1.50
Choi Wai Yin	800,000	–	800,000	26 April 2006	26 April 2008 to 25 April 2013	HK\$1.50
Kee Wah Sze	800,000	–	800,000	26 April 2006	26 April 2008 to 25 April 2013	HK\$1.50
Sub-total	10,900,000	–	10,900,000			
Employees	78,500,000	–	78,500,000	26 April 2006	26 April 2008 to 25 April 2013	HK\$1.50
Others	14,600,000	–	14,600,000	26 April 2006	26 April 2008 to 25 April 2013	HK\$1.50
Total	104,000,000	–	104,000,000			

Note: Closing price per share immediately before the date of grant of options was HK\$1.34.

The fair value of the options granted in the current year, measured at the date of grant on 26 April 2006, totalled approximately HK\$38,858,000. As the options vest after two years from the date of grant on 26 April 2006, the amount will be recognised as a share-based compensation expense in the consolidated income statement over 2 years from 26 April 2006 to 25 April 2008. Thus, HK\$12,953,000 was recognised as a share-based compensation expense in the consolidation income statement with a corresponding credit in share-based compensation reserve for the year ended 31 December 2006.

Using the Black-Scholes option pricing model, the following significant assumptions were used to derive the fair value of the options granted on 26 April 2006:

1. an expected volatility of 57.33%;
2. nil dividend yield;
3. the estimated weighted average expected life of the options granted on 26 April 2006 is 2.1 years. The corresponding period of Hong Kong Exchange Fund Notes interest rate at the date the options granted was 4.27%; and
4. estimated turnover rates of the Mainland employees and Hong Kong employees are both 15%.

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SHARE OPTION SCHEME *(cont'd)*

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to the absence of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Save 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 a party to any arrangements, which enable a director or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 31 December 2006, the interests and short positions of the directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein 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") were as follows:

(i) Long positions in ordinary shares (HK\$0.10 each) of the Company:

Name of Director	Number of ordinary shares held		% of issued share share capital of the Company	
	Personal interests	Corporate interests	Total	Total
Mr. Wong Lik Ping	90,750,000	1,149,200,000 (Note)	1,239,950,000	59.59%

Note: Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,149,200,000 ordinary shares in the Company as at 31 December 2006.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

(cont'd)

(ii) *Options to subscribe for ordinary shares (HK\$0.10 each) of the Company:*

The directors of the Company have been granted unlisted options under the Company's share option scheme, details of which are set out in the section "SHARE OPTION SCHEME" above.

Save as disclosed above, none of the directors and chief executives had any interest or short position in the shares, debentures or underlying shares of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2006, no other person, not being a director or chief executive of the Company, other than the directors or chief executives of the Company whose interests are set out in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS" above, had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

– the largest supplier	91%
– five largest suppliers in aggregate	100%

Sales

– the largest customer	85%
– five largest customers in aggregate	100%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these suppliers or customers.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

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.

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SUBSEQUENT EVENTS

The Company entered into Placing Agreement on 15 March 2007 pursuant to which the Placing Agent has conditionally agreed to procure placees for a maximum of 230,000,000 new shares of the Company (being the Placing Shares), at a placing price of HK\$2.00 per Placing Share. Net proceed from the Placing Shares is estimated to be approximately HK\$440,000,000. Maxease Limited, a wholly-owned subsidiary of the Company, entered into the Subscription Agreement on 15 March 2007 pursuant to which the Manager has conditionally agreed to subscribe for, or to procure subscriptions for, the Convertible Notes in an aggregate principal amount of HK\$300,000,000 issued by Maxease Limited. Net proceed from the Convertible Notes is estimated to have approximately HK\$280,000,000. The Placing Agreement and the Subscription Agreement were completed 2 April 2007 and 20 April 2007 respectively. Further details of the transactions are set out in note 44 to the financial statements and the announcements of the Company dated 20 March 2007 and 2 April 2007.

AUDITORS

Grant Thornton retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Grant Thornton as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

So Kwok Hoo

Executive Director

Hong Kong, 23 April 2007