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Fulbond Holdings Limited
福邦控股有限公司

(Stock Code: 1041)

ANNUAL REPORT 2006

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
Mr. Zhang Xi *(Chairman)*
Ms. Zhang Huafang
Mr. Cai Duanhong
Ms. Catherine Chen

Independent non-executive Directors:
Mr. Hong Po Kui, Martin
Mr. Yam Tak Fai, Ronald
Mr. Wong Man Hin, Raymond

AUDIT COMMITTEE

Mr. Yam Tak Fai, Ronald *(Chairman)*
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin

REMUNERATION COMMITTEE

Mr. Hong Po Kui, Martin *(Chairman)*
Mr. Wong Man Hin, Raymond
Mr. Yam Tak Fai, Ronald
Mr. Zhang Xi

COMPANY SECRETARY

Mr. Ho Yee Kee, Ricky

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN HONG KONG

15th Floor
Sing Ho Finance Building
166-168 Gloucester Road
Wanchai
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway
Hong Kong

PUBLIC RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1041

CHAIRMAN'S STATEMENT

On behalf of the board of Directors (the "Board"), I am pleased to present the annual report of Fulbond Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2006.

FINANCIAL RESULTS

The Group reported turnover of approximately US$26,308,000, during the year, an increase of about 17% as compared with approximately US$22,485,000 in 2005. The increase was mainly contributed by expansion of customer orders. However, as a result of the slight reduction of raw material costs, the Group's gross profit increased to approximately US$2,929,000 against last year's US$1,605,000. Loss attributable to equity holders for 2006 was US$7,017,000 (2005: US$5,068,000). Basic loss per share was US0.08 cents (2005: US0.06 cent).

DIVIDENDS

The Board has not recommended the payment of a final dividend in respect of the year ended 31 December 2006.

APPOINTMENT OF THE NEW BOARD

As disclosed in the announcement of the Company dated 4 January 2007, the appointment of the new Board became effective commencing from 3 January 2007 immediately after the unconditional mandatory cash offers were made.

BUSINESS REVIEW

Timber Business

Timber business remained the core business of the Group.

In 2006, despite keen competition in the industry, the Group's major timber products including blockboard, particle board and door skin still managed to achieve satisfactory growth in sales. However, the slight reduction of raw materials prices such as wood and chemicals reduced the Group's cost of production.

Jilin Fudun Timber Company Limited ("Fudun"), the Group's 67%-owned subsidiary developed steadily. Its molded door skins are mainly exported overseas to markets including Turkey, the Middle East and Pakistan. Boasting good quality products, Fudun was able to meet customer needs in these overseas markets during the year and reported a 46% increase in sales of door skin products and secured a higher gross profit margin.

Under the new leadership of the Group, Fudun will continue to explore new market so as to boost revenue and its sources.

CHAIRMAN'S STATEMENT

HIGH TECHNOLOGY RELATED BUSINESS

In the past few years, the Group invested in high technology related business, especially that of System on Chip ("SoC")—based solutions and services. However, with the high technology business of its technology arm Fulhua Microelectronics Corporation ("FameG") recording loss continuously, our new board of Directors decided to dispose of its stake in this company. The Group has entered into an agreement with Silverplus Investment Limited to dispose its equity interest in FameG. Shareholders should refer to the announcement dated 20 March 2007 for details of the relevant transaction.

FUTURE PLANS AND PROSPECTS

Going forward, the Group will strive to improve its financial situation and overall performance. The Group will continue to strengthen its timber business and seek opportunities to develop other businesses to expand its revenue base. The Group will also implement prudent financial management and stringent cost control measures to enhance its profitability.

The Group is optimistic about the prospect of its timber business. The Group will consolidate the business and step up sales and marketing efforts to improve the segment's performance. Apart from growing existing markets, the Group will continue to explore other overseas markets. The Group took part in exhibitions which it received a request for product samples from a Russian buyer. The Group will continue negotiations with this potential customer and watch closely for other opportunities in the Russian market. Riding on its strong manufacturing capabilities and ever-expanding distribution network, the Group is also well-positioned to tap the China market that promises immense potential.

Prompted by the less than satisfactory performance of its high technology related business, the Group disposed of the stake in FameG, its loss incurring associated company, and will gradually exit this business segment and focus resources on developing timber business and exploring opportunities for new businesses so as to improve overall performance.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, members of the former board as well as the new board, fellow staff, customers, suppliers and business associates for their continuous support to the Group. We look forward to achieving better results in the coming year and generating satisfactory returns for our shareholders.

Zhang Xi
Chairman
Hong Kong, 24 April 2007

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group recorded a turnover of approximately US$26,308,000, increased 17% from last year's approximately US$22,485,000. The growth in turnover was mainly attributable to expansion of clients base within the market and customer orders are continuous improved. As a result of the slight reduction in raw material costs, the Group's gross profit increase to approximately US$2,929,000 against last year's US$1,605,000. Loss attributable to equity holders for 2006 was US$7,017,000 (2005: US$5,068,000). Basic loss per share was US0.08 cent (2005: US0.06 cent).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group's total shareholder equity was approximately US$8,957,000 (2005: US$15,159,000).

Total bank and other borrowings as at 31 December 2006 were approximately US$11,674,000. This consisted of outstanding secured and unsecured loans from banks and other financial institutions, unsecured loan notes and other loans which are mainly denominated in Renminbi and US dollars. The sales and purchases of the Group are also mainly denominated in Renminbi and US dollars. As the exchange rates of Renminbi against US dollars were relatively stable during the year, the Group's exposure to fluctuations in exchange rates is minimal.

As at 31 December 2006, the cash and bank balances of the Group was approximately US$3,661,000 (2005: US$2,635,000).

PLEDGE OF ASSETS

At 31 December 2006, the Group had pledged certain properties and plant and equipment with carrying amounts of US$8,150,000 (2005: US$9,375,000) to various banks and other financial institutions for securing loans and credit facilities granted to the Group.

CAPITAL EXPENDITURE

During the year, the Group's total investments in property, plant and equipment and construction in progress for other equipment amounted to approximately US$671,000, of which approximately 27% was used for the acquisition of plant and equipment approximately 54% was used for the construction in progress for the other equipment.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had outstanding capital commitments of approximately US$357,000 in connection with the acquisition of property, plant and equipment.

FINANCE COSTS

For the year ended 31 December 2006, finance costs slightly increased to US$883,000 from US$746,000 for 2005, mainly due to the increased in additional bank loan for the year and this has resulted in an increase in the bank and other borrowings of the Group.

CONTINGENT LIABILITIES

At 31 December 2006, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed approximately 780 full time management, administrative and production staff in China and Hong Kong. Total staff costs including directors emoluments incurred during the year, amounted to US$1,651,000 (2005: US$1,741,000). The remuneration policy of the employees of the Group is based on their merit, qualifications and competence.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

Biographical details of the Directors are set out as follows:

DIRECTORS

Executive Directors

Mr. Zhang Xi ("Mr. Zhang"), aged 38, is the chairman of the Group and executive Director. He is one of the members of remuneration committee of the Company. Mr. Zhang obtained a bachelor degree in economics from the University of Xiamen, People's Republic of China ("PRC") in 1990. He has extensive experience in private equity investments in mainland China. Mr. Zhang set up Great Time Holdings Limited in Hong Kong in 1999, the principal business of which includes investments in a mechanical electrical engineering company in Fuzhou, China, which is engaged in manufacturing of power machine equipment, electrical equipment, food processing equipment, the design and process of the relevant components and after-sale services and in a high technology company in Beijing, which is engaged in research, development and manufacturing of smart construction materials. He is the brother of Ms. Zhang Huafang and the brother-in-law of Mr. Cai Duanhong.

Ms. Zhang Huafang ("Ms. Zhang"), aged 32, is the executive Director. She has extensive experience in investment in the mainland China. Ms. Zhang and Mr. Cai Duanhong own a company in Xiamen, China, which is principally engaged in private investments in the PRC. Ms. Zhang studied in the University of Xiamen, PRC and majored in international trading during the period from 1991 to 1995. Ms. Zhang is a sister of Mr. Zhang.

Mr. Cai Duanhong ("Mr. Cai"), aged 40, is the executive Director. He has extensive experience in property development and investment in the PRC. Mr. Cai set up Smart Hero (HK) Investment Development Limited in Hong Kong in 2002 which is principally engaged in investments in property development, hotels and hospitals in the PRC. Mr. Cai is the husband of Ms. Zhang Huafang.

Ms. Catherine Chen ("Ms. Chen"), aged 46, is the managing director of the Group and the executive Director. She has extensive experience in project investment, marketing research and the provision of consultancy services in relation to businesses of foreign enterprises in the PRC. She obtained a master of business administration (marketing) degree from The University of Liverpool in 2001.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hong Po Kui, Martin ("Mr. Hong"), aged 57, is an independent non-executive Director, a chairman of the remuneration committee and one of the members of audit committee of the Company. Mr. Hong is a practicing solicitor and a notary public in Hong Kong. He has been practicing as a solicitor of the High Court of Hong Kong for 30 years and is the senior partner of Messrs. Lau, Chan & Ko, Solicitors. He also holds a bachelor degree in science from University of New South Wales in Australia.

Mr. Yam Tak Fai, Ronald ("Mr. Yam"), aged 50, is the independent non-executive Director. He is also a chairman of the audit committee and one of the members of the remuneration committee of the Company. He is a partner in RSM Nelson Wheeler, Certified Public Accountants in Hong Kong. Mr. Yam is a member of the Institute of Chartered Accountants of England and Wales, a fellow member of the Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong. Mr. Yam has 30 years' experience in accounting and auditing, and is currently a holder of a Practising Certificate issued by Hong Kong Institute of Certified Public Accountants. He commenced accounting practice in 1977 and became a partner of RSM Nelson Wheeler in January 1999.

Mr. Wong Man Hin, Raymond ("Mr. Wong"), aged 41, is the independent non-executive Director. He is also one of the members of audit and remuneration committees of the Company. He is a member of American Institute of Certified Public Accountants, a Certified Management Accountant (CMA) and holds a certificate in financial management (CFM). He holds a bachelor's degree in chemical engineering and a master degree in economics.

CORPORATE GOVERNANCE REPORT

The Board considers that good corporate governance of the Company is crucial to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance and will continuously review and improve the corporate governance practice and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner. During the year, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Throughout the year ended 31 December 2006, the Company has compiled with code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules.

Included in this report is the information relating to corporate governance practices of the Company during the year ended 31 December 2006 and significant events after that date and up to the date of this report.

1. THE BOARD

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in the annual and interim reports, and of other price-sensitive announcements and other financial disclosures as required under the Listing Rules, and reports to regulators any information required to be disclosed pursuant to statutory requirement.

The Board has fiduciary duty and statutory responsibility towards the Company and the Group. Other responsibilities include formulation of the Group's overall strategy and policies, setting of corporate and management targets and key operational initiatives, monitoring and control of operational and financial performance, and approval of budgets and major capital expenditures, major investments, material acquisitions and disposals of assets, corporate or financial restructuring, significant operational, financial and management matters.

The Board delegates day-to-day management of the business of the Group to the management of the relevant principal subsidiaries and certain specific responsibilities to audit committee and remuneration committee. The composition and functions of each committee are described below. These committees have specific functions and authority to examine issues and report to the Board with their recommendations, (if appropriate). The final decision rests with the Board, unless otherwise provided for in the term of reference of the relevant committee.

1. THE BOARD *(CONTINUED)*

The company secretary of the Company ("Company Secretary") provides the Directors with updates on developments regarding the Listing Rules and other applicable regulatory requirements. Any director may request the Company Secretary to organise independent professional advice at the expense of the Company to assist the Directors to effectively discharge their duties to the Company.

The independent non-executive directors of the Company ("INEDs") serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Each of the INEDs provides an annual confirmation of his independence to the Company. The Board considers that each of the INEDs is independent in character and judgment and that they all meet the specific independence guidelines as set out in rule 3.13 of the Listing Rules.

All Directors have access to the advice and services of the Company Secretary in respect of compliance with board procedures, and all applicable rules and regulations. All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent advice where necessary at the expense of the Company in discharging of their duties to the Company.

The Board meets at least four times each year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. Additional meetings may be convened as and when necessary. Notice of at least fourteen days is served for regular board meetings. Reasonable notice would be given for all other special board meetings which are not held regularly. The Chairman is primarily responsible for drawing up and approving the agenda for each board meetings in consultation with all Directors and ensure that all Directors are properly briefed on issues arising at board meetings. Agenda and accompanying board papers in respect of board meetings are sent out in full to all Directors within a reasonable time before the date of every board meetings to allow them to review these documents in advance. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee are kept by the Company Secretary and the Directors may inspect these minutes at any time during office hours upon giving reasonable notice. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee, have recorded in sufficient detail the matters considered by the Board and the board committees, including any concerns raised by Directors or dissenting view expresses. Draft and final versions of these are sent to all Directors for their comment and records respectively, normally within 5 days after the relevant meeting was held.

CORPORATE GOVERNANCE REPORT

1. THE BOARD *(CONTINUED)*

The following is an attendance record of the board meetings held by the Board during the year:

Name of board member	Number of meetings attended	Attendance Rate
Dr. Yang Ding-Yuan	6/6	100%
Ms. Meng Tung-Mei, Grace	6/6	100%
Professor Edward S. Yang	4/6	67%
Mr. Lo I-Wang	3/6	50%
Ms. Chang Jing-Yue	3/6	50%

During the year, Mr. Chan Ting-Fung Tim was resigned on 21 February 2006.

Save as Ms. Catherine Chen was appointed on 2 January 2007, Mr. Zhang Xi, Ms. Zhang Huafang, Mr. Cai Duanhong, Mr. Hong Po Kui, Martin, Mr. Yam Tak Fai, Ronald and Mr. Wong Man Hin, Raymond were appointed on 11 December, 2006, and all such newly appointed Directors were not eligible to attend any of the said six full board meetings.

The Directors acknowledge that they are responsible for preparing accounts for each financial period on a going concern basis, with supporting assumptions or qualification as necessary.

2. CHAIRMAN AND MANAGING DIRECTOR

Mr. Zhang Xi is the Chairman of the Company ("Chairman"). Ms. Catherine Chen is the managing director of the Company ("Managing Director"). The roles of the Chairman and the Managing Director are segregated. The Managing Director is responsible for managing and smoothing the business operations of the Company. The Chairman is responsible for leading the Board in the overall strategic development of the Group. The Chairman and the Managing Director are two separate individuals and have no relationship with each other. The Board believes that there is an effective segregation of duties between the Chairman and the Managing Director.

3. BOARD COMPOSITION

The Board currently comprises of the following four executive Directors and three independent non-executive Directors:

Executive Directors

Mr. Zhang Xi (Chairman)
Ms. Zhang Huafang
Mr. Cai Duanhong
Ms. Catherine Chen (Managing Director)

Independent non-executive Directors

Mr. Hong Po Kui, Martin
Mr. Yam Tak Fai, Ronald
Mr. Wong Man Hin, Raymond

Mr. Chan Ting-Fung Tim was resigned on 21 February 2006. Dr. Yang Ding-Yuan, Ms. Meng Tung-Mei, Professor Edward S. Yang, Mr. Lo I-Wang and Ms. Chang Jing-Yue was resigned on 2 January 2007.

All INEDs are expressly identified as such in all of the Company's corporate communications that disclose the names of Directors.

4. APPOINTMENT AND RE-ELECTION OF DIRECTORS

Non-executive directors are appointed for a specific term of three years. All Directors retire from office by rotation and are subject to re-election at an annual general meeting at least once every three years.

At every annual general meeting, one-third of the Directors for the time being shall retire from office and be eligible for re-election.

5. NOMINATION OF DIRECTORS

The Company does not have a nomination committee.

The Board regularly reviews its structure, size and composition. The Company follows a formal, considered and transparent procedure for the appointment of new Directors to the Board. The appointment of a new Director is a collective decision of the Board, taking into consideration the expertise, experience, integrity and commitment of that appointee to the Company and the Group.

6. BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following committees which are all chaired by INEDs with defined terms of reference.

6.1 Audit Committee

The Audit Committee ("AC") is established in 1998 and its current members are three INEDs who have extensive experience in business and financial matters. The current members of the AC are as follows:

Mr. Yam Tak Fai, Ronald *(Chairman)*
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin

The Board considers that each AC member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the AC. The written terms of reference which describe the authority and duties of the AC were prepared and adopted in 1998 with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The written terms of reference have included the duties as set out in Code Provisions C.3.3(a) to (e).

The AC meets twice during the year to review the reporting of financial and other information to shareholders, the systems of internal control, risk management and the effectiveness and objectivity of the audit process. The AC also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps the independence and objectivity of the auditors under review.

The following is an attendance record of the audit committee meeting for the year ended 31 December 2006:–

Name of AC Member	Number of meetings attended	Attendance Rate
Professor Edward S. Yang *(Chairman)*	2/2	100%
Mr. Lo I-Wang	2/2	100%
Ms. Chang Jing-Yue	2/2	100%

The abovenamed directors were resigned on 2 January 2007. During the year, all existing members of the AC were not eligible to attend any of the said two meetings.

6. BOARD COMMITTEES *(CONTINUED)*

6.1 Audit Committee *(continued)*

The AC oversees the financial reporting process. In this process, management is responsible for the preparation of Group's financial statements including the selection of suitable accounting policies. External auditors are responsible for auditing the Group's financial statements. The members of the AC assist the Board in fulfilling its responsibilities by providing an independent review of the financial statements, supervising the system of financial reporting and satisfying themselves as to the effectiveness of the Group's internal controls. AC presents a report to the Board on its findings after each AC meeting.

The AC reviewed and discussed with the management and external auditors the 2006 consolidated financial statements included in the 2006 Annual Report. In this regard, the AC held discussions with management with regard to new or changes in accounting policies that had been applied, and significant judgments of the management which affected the Group's financial statements. The AC received reports and met with the external auditors to discuss the general scope of their audit work, including the impact of new or changes in accounting policies that had been applied and their assessment of the Group's internal controls. Based on these review and discussions, and the report of the external auditors, the AC recommended to the Board to approve the consolidated financial statements for the year ended 31 December 2006 and the Auditors' Report.

The AC reviewed the unaudited financial statements for the six months ended 30 June 2006, prior to public announcement and filing, and recommended that they be approved by the Board.

The new members of the AC considered the appointment of external auditors, their audit fees and recommended to the Board to seek shareholders' approval for the re-appointment of Deloitte Touche Tohmatsu ("Deloitte") as the Group's external auditors for 2006.

6. BOARD COMMITTEES *(CONTINUED)*

6.2 Remuneration Committee

The Remuneration Committee ("RC") is established in early 2005 and its current members are Mr. Hong Po Kui, Martin (Chairman), Mr. Yam Tak Fai, Ronald and Mr. Wong Man Hin, Raymond and Mr. Zhang Xi.

The written terms of reference have included the duties as set out in Code Provisions B.1.3(a) to (f).

The principal role and function of the RC includes:

– give recommendations on the establishment of the Company's policy and structure for all remuneration of all Directors, senior management and employees;

– review and determine the remuneration packages and compensation arrangements for loss of office of all Executive Directors and senior management; and

– review of performance-based remuneration policy of the Group.

The RC meets once during the year.

The following was an attendance record of the remuneration committee meeting for the year ended 31 December 2006:–

Name of RC Member	**Number of meetings attended**	**Attendance Rate**
Professor Edward S. Yang *(Chairman)*	1/1	100%
Mr. Lo I-Wang	1/1	100%
Mr. Chan Ting-Fung	1/1	100%
Dr. Yang Ding-Yuan	1/1	100%

Details of Directors (including each executive director) emoluments and options are set out in notes 11 and 27 to the financial statements respectively.

The Directors' fees are subject to shareholders' approval at general meeting. In determining the emolument payable to Directors, the RC takes into consideration factors such as their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and the desirability of performance-based remuneration. No director is involved in determining his/her own remuneration.

The remuneration package for each employee is structured to attract and to retain and motivate high quality staff and at the same time to reflect the importance of aligning awards with shareholder interests. The remuneration package contains a combination or modifications of some or all of the three main components: basic salary, performance bonus and share options.

7. INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Group's internal control systems comprise an established organizational structure and comprehensive policies and standards. Procedures have been designed to safeguard assets against unauthorized use or disposition, to maintain proper accounting records, for the reliability of financial information used within the business or for publication, and to ensure compliance with applicable laws and regulations. The purpose of the Group's internal control is to provide reasonable, but not absolute, assurance against material statement or loss and manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Company has implemented the following procedures and internal controls for the handling and dissemination of price sensitive information:

(1) it monitors any price sensitive information and make appropriate announcement as required by the Listing Rules;

(2) it conduct its affairs by reference to the "Guide on disclosure of price-sensitive information" issued by the Stock Exchange; and

(3) it has established guidelines to be following by senior management and employees in dealing with confidential information.

8. EXTERNAL AUDITOR

It is the external auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the shareholders of the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the content of the auditors' report.

For the year ended 31 December 2006, Deloitte is appointed as the external auditor of the Group and provided interim review and annual audit services to the Group of HK$1,865,000. Deloitte also provided the non-audit service to the Group of HK$380,000. The Board has accepted the recommendation from the AC on re-appointing Deloitte as the external auditor of the Group.

9. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The responsibilities of the Directors are to prepare the financial accounts for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Directors also acknowledge that the publication of the financial statements should be distributed to the Shareholders of the Company in a timely manner. In preparing the accounts for the year ended 31 December 2006, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent, fair and reasonable and prepared accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

10. MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out by the Stock Exchange in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, during the review year all Directors have complied with the required standards of dealings as set out in the Model Code and the Company's own code of conduct.

11. INVESTOR RELATIONSHIP AND COMMUNICATION

The Company is responsible for ensuring that shareholders' rights are protected. In order to fulfill this responsibility, the Company endeavours to maintain a high level of transparency in communicating with shareholders and the investment community at large. The Company is committed to continue to maintain an open and effective investor communication policy and to update investors with the relevant information on its business in a timely and accurate manner, subject to the relevant regulatory requirements. In order to ensure effective, clear and accurate communication with investors, all corporate communication are arranged and handled by the executive directors and designated senior executives according to established practices and procedures of the Company.

The Board uses annual general meetings and other general meetings as the principal channel to meet and communicate with the shareholders. Registered shareholders are notified by post for these general meetings, and the notice of meeting contains the agenda and the proposed resolutions. Any registered shareholder is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the register of shareholders. The Board also encourages shareholders to participate in these general meetings to maintain an on-going dialogue with the shareholders.

Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and other interested parties. The Company's news releases, announcements and publications are circulated to all major news media in a timely and accurate manner.

Separate resolutions will be proposed by the chairman of the Board in respect of each substantially separate issue at the Company's forthcoming annual general meeting. The chairman of the Board, and the chairmen of the AC and RC will attend the forthcoming annual general meeting to answer questions of shareholders.

12 VOTING BY POLL

Shareholders who are unable to attend a general meeting may complete and return a proxy form enclosed with the notice of meeting to the share registrar to appoint their representatives, another shareholder or Chairman of the meetings to act as proxy at the general meetings. The Chairman, except where a poll is required, will indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against each resolution, after the resolution has been dealt with on a show of hands.

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders despatched together with this annual report.

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 committment 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.

REPORT OF THE DIRECTORS

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.

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 (*Note*)	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.

REPORT OF THE DIRECTORS

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:

				Number of share options		
	Date of grant	Exercise period	Exercise price HK$	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.

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:

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

REPORT OF THE DIRECTORS

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.

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

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF FULBOND HOLDINGS LIMITED
福邦控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Fulbond Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 69, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
24 April 2007

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	**2006** **US$'000**	2005 US$'000
Turnover	*7*	**26,308**	22,485
Cost of sales		**(23,379)**	(20,880)
Gross profit		**2,929**	1,605
Other income	*8*	**700**	1,410
Distribution costs		**(3,120)**	(2,333)
Administrative expenses		**(3,904)**	(3,192)
Impairment loss recognised in respect of construction in progress		**(268)**	–
Finance costs	*9*	**(883)**	(746)
Share of results of associates		**(2,692)**	(1,801)
Loss before taxation		**(7,238)**	(5,057)
Tax charge	*10*	**(1,059)**	(1,040)
Loss for the year	*11*	**(8,297)**	(6,097)
Attributable to:			
Equity holders of the Company		**(7,017)**	(5,068)
Minority interests		**(1,280)**	(1,029)
		(8,297)	(6,097)
Loss per share – basic	*12*	**(0.08) US cent**	(0.06) US cent

CONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 US$'000	2005 US$'000
Non-current assets			
Property, plant and equipment	13	**14,944**	16,489
Prepaid lease payments	14	**905**	956
Interests in associates	15	**349**	3,008
Other investments	16	**–**	–
Club debenture	17	**–**	37
Deferred tax assets	18	**–**	943
		16,198	21,433
Current assets			
Inventories	19	**6,561**	9,229
Trade and other receivables	20	**5,986**	6,561
Deposits and prepayments		**1,408**	1,418
Prepaid lease payments	14	**108**	102
Tax recoverable		**48**	100
Bank balances and cash	21	**3,661**	2,635
		17,772	20,045
Current liabilities			
Trade and other payables	22	**7,265**	6,083
Amounts due to associates	23	**531**	118
Amount due to ultimate holding company	24	**–**	560
Amount due to former ultimate holding company	24	**560**	–
Bank and other borrowings-amount due within one year	25	**10,015**	10,887
		18,371	17,648
Net current (liabilities) assets		**(599)**	2,397
Total assets less current liabilities		**15,599**	23,830
Non-current liabilities			
Bank and other borrowings – amount due after one year	25	**1,659**	727
		13,940	23,103
Capital and reserves			
Share capital	26	**9,197**	9,197
Reserves		**(240)**	5,962
Equity attributable to equity holders of the Company		**8,957**	15,159
Minority interests		**4,983**	7,944
		13,940	23,103

The consolidated financial statements on pages 26 to 69 were approved and authorised for issue by the Board of Directors on 24 April 2007 and are signed on its behalf by:

ZHANG XI
DIRECTOR

ZHANG HUAFANG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holders of the Company										
	Share capital US$'000	Share premium US$'000	Capital reserve US$'000 (Note a)	General reserve US$'000 (Note b)	Exchange translation reserve US$'000	Share option reserve US$'000	Capital redemption reserve US$'000	Accumulated losses US$'000	Total US$'000	Minority interests US$'000	Total US$'000
Balance 1 January 2005	9,161	47,540	716	1,968	627	–	4	(39,925)	20,091	9,969	30,060
Loss for the year and total recognised income and expenses for the year	–	–	–	–	–	–	–	(5,068)	(5,068)	(1,029)	(6,097)
Recognition of equity settled share based payments	–	–	–	–	–	42	–	–	42	–	42
Issue of shares upon exercise of share options	36	58	–	–	–	–	–	–	94	–	94
Transfer of share option reserve on exercise of share options	–	42	–	–	–	(42)	–	–	–	–	–
Capital repatriation to a minority shareholder	–	–	–	–	–	–	–	–	–	(941)	(941)
Dividends paid to a minority shareholder	–	–	–	–	–	–	–	–	–	(55)	(55)
Realised on disposal of an associate	–	–	–	(384)	134	–	–	250	–	–	–
Transfer	–	–	–	1	–	–	–	(1)	–	–	–
Balance at 31 December 2005 and 1 January 2006	9,197	47,640	716	1,585	761	–	4	(44,744)	15,159	7,944	23,103
Share of reserves of associates	–	–	–	–	33	–	–	–	33	–	33
Exchange differences arising on translation of operations in PRC	–	–	–	–	782	–	–	–	782	305	1,087
Net income recognised directly in equity	–	–	–	–	815	–	–	–	815	305	1,120
Loss for the year	–	–	–	–	–	–	–	(7,017)	(7,017)	(1,280)	(8,297)
Total recognised income and expenses for the year	–	–	–	–	815	–	–	(7,017)	(6,202)	(975)	(7,177)
Capital repatriation to a minority shareholder	–	–	–	–	–	–	–	–	–	(1,986)	(1,986)
Balance at 31 December 2006	9,197	47,640	716	1,585	1,576	–	4	(51,761)	8,957	4,983	13,940

Notes:

(a) Capital reserve represents the reserve arising from the group restructuring which took place in 1996.

(b) General reserve comprises Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in the PRC in accordance with the memorandum and articles of association of those subsidiaries.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 US$'000	2005 US$'000
OPERATING ACTIVITIES		
Loss before taxation	**(7,238)**	(5,057)
Adjustments for:		
Amortisation of prepaid lease payments	**105**	102
Depreciation of property, plant and equipment	**2,914**	3,013
Interest income	**(24)**	(9)
Interest expenses	**883**	746
Share of results of associates	**2,692**	1,801
Loss on disposal of property, plant and equipment	**11**	17
Recognition of share-based payments	**–**	42
Gain on disposal of investment in an investee company	**–**	(283)
Gain on disposal of associates	**–**	(4)
Allowance for bad and doubtful debts	**758**	342
Write down of inventories to net realisable value	**659**	–
Impairment loss recognised in respect of construction in progress	**268**	–
Impairment loss recognised in respect of club debenture	**37**	–
Operating cash flows before movements in working capital	**1,065**	710
Decrease (increase) in inventories	**2,563**	(2,730)
Decrease in trade and other receivables	**61**	2,133
Decrease (increase) in deposits and prepayments	**10**	(254)
Increase in trade and other payables	**817**	1,787
Increase in amounts due to associates	**406**	118
Cash generated from operations	**4,922**	1,764
PRC Enterprise Income Tax paid	**–**	(43)
Interest paid	**(883)**	(746)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**4,039**	975
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(671)**	(1,298)
Interest received	**24**	9
Proceeds from disposal of property, plant and equipment	**10**	4
Proceeds from disposal of investment in an investee company	**–**	724
Decrease in amounts due from associates	**–**	184
Proceeds from disposal on an associates	**–**	54
NET CASH USED IN INVESTING ACTIVITIES	**(637)**	(323)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 US$'000	2005 US$'000
FINANCING ACTIVITIES		
New bank loans raised	**8,480**	9,776
Repayments of bank loans	**(9,018)**	(9,064)
Capital repatriated to a minority shareholder of a subsidiary	**(1,986)**	(941)
Dividends paid to minority shareholders of a subsidiary	**–**	(55)
Proceeds from issue of shares upon exercise of share options	**–**	94
NET CASH USED IN FINANCING ACTIVITIES	**(2,524)**	(190)
Increase in cash and cash equivalents	**878**	462
Cash and cash equivalents at 1 January	**2,635**	2,173
Effect of changes in foreign exchange rates	**148**	–
Cash and cash equivalents at 31 December, represented by bank balances and cash	**3,661**	2,635

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company and ultimate holding company as at 31 December 2006 is Civil Talent International Limited ("CTIL"), a company incorporated in British Virgin Islands. The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The consolidated financial statements are presented in United States dollar while the functional currency of the Company is Renminbi. The directors consider this presentation currency is more useful for its current and potential investors.

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates as at 31 December 2006 are the manufacturing and sale of wooden products and provision of integrated circuit design services.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the consolidated financial statements the directors have given consideration to the future liquidity of the Group. While recognising that the Group had sustained a net current liabilities of US$599,000 as at 31 December 2006, the directors are confident that the Group will be able to obtain financial support from the ultimate holding company of the Company, Civil Talent International Limited, to enable the Group to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segments [2]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3]
HK(IFRIC)-INT 8	Scope of HKFRS 2 [4]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives [5]
HK(IFRIC)-INT 10	Interim financial reporting and impairment [6]
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions [7]
HK(IFRIC)-INT 12	Service concession arrangements [8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2009.
[8] Effective for annual periods beginning on or after 1 January 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention. The accounting policies are set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its subsidiary.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when risks and rewards of ownership of the goods have passed.

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress represents assets in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any identified impairment loss. Cost includes all construction expenditure and other direct costs attributable to such projects. Construction in progress is classified to other appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, takes place on the same basis as other property assets and commences when the assets are ready for their intended use.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Government grants

Government grants, in the form of value added tax refunds, are recognised when there is reasonable assurance that the entity will comply with the conditions attaching to the grant and the grant will be received, which is the date when the local government authority approves the grant.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment loss

At each balance sheet date, the Group reviews the carrying amount of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs are recognised in the profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are mainly classified into loans and receivables and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, held-to-maturity investments and loans and receivables.

Available-for-sale investments, comprising other investments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not reverse in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to associates and ultimate holding company, bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share option reserve.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

The Group has applied HKFRS 2 "Share-based payments" to share options granted on or after 1 January 2005. The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 and vested after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005 and therefore no amount has been recognised in the financial statements in respect of these equity-settled shared-based payments.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. United States dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits

Payments to Mandatory Provident Fund ("MPF") scheme are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following estimations that have the most significant effect on the amounts recognised in the financial statements.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

Management has put in place procedures to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss. The impairment loss is recognised to profit and loss when there is objective evidence that the asset is impaired.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgment in the area of asset impairment, particularly in assessing (i) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (ii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, trade and other payables, amount due to former ultimate holding company and amounts due to associates, bank and other borrowings and bank balances and cash. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and certain trade receivables and borrowings (see notes 20 and 25) are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) Interest risk

The Group's interest rate risk relates primarily to fixed-rate bank borrowings (see note 25 for details of these borrowings). It is the Group's policy to keep its borrowings at fixed rate of interests so as to minimise the cash flow interest rate risk.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit standing.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including raising of loans to cover expected cash demands, subject to approval by the board of directors of the Company when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group had sustained a net current liabilities of US$599,000 as at 31 December 2006. As outlined in note 2, the directors are confident that the Group will be able to obtain financial support from the ultimate holding company to enable the Group to meet in full its financial obligations as they fall due in the foreseeable future. In this regard, the directors of the Company consider that the Group's liquidity risk is significantly reduced.

Fair value

The fair values of other financial assets and financial liabilities are based on discounted cash flow analysis using prices from observable current market transactions. The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

7. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and services provided.

(a) Business segments

For management purposes, the Group is currently organised into four principal operating divisions, the principal activities of which are disclosed as follows and these divisions form the bases on which the Group reports its primary segment information.

Principal activities:

Blockboard and particle board	– manufacture and trading of products of blockboard and particle board
Door skin	– manufacture and trading of door skin
Other wooden products	– manufacture and trading of wooden products other than those identified as above
Others	– high-technology related business

7. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(a) Business segments *(continued)*

(i) Segment information about these businesses is presented below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Blockboard and particle board US$'000	Door skin US$'000	Other wooden products US$'000	Others US$'000	Consolidated US$'000
TURNOVER					
External sales	12,523	11,770	2,015	–	26,308
RESULT					
Segment result	(582)	(257)	(1,756)	–	(2,595)
Unallocated corporate expenses					(1,068)
Finance costs					(883)
Share of results of associates	–	–	(1,239)	(1,453)	(2,692)
Loss before taxation					(7,238)
Tax charge					(1,059)
Loss for the year					(8,297)

7. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(a) Business segments *(continued)*

(i) Segment information about these businesses is presented below: *(continued)*

CONSOLIDATED ASSETS AND LIABILITIES

As at 31 December 2006

	Blockboard and particle board US$'000	Door skin US$'000	Other wooden products US$'000	Others US$'000	Consolidated US$'000
ASSETS					
Segment assets	14,666	14,836	1,744	–	31,246
Interests in associates	–	–	54	295	349
Unallocated corporate assets					2,375
Consolidated total assets					33,970
LIABILITIES					
Segment liabilities	1,851	1,474	2,502	–	5,827
Unallocated corporate liabilities					14,203
Consolidated total liabilities					20,030

7. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(a) Business segments *(continued)*

(i) Segment information about these businesses is presented below: *(continued)*

OTHER INFORMATION

For the year ended 31 December 2006

	Blockboard and particle board	Door skin	Other wooden products	Others	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
Additions of property, plant and equipment	249	302	120	–	671
Amortisation of prepaid lease payments	71	32	2	–	105
Depreciation of property, plant and equipment	1,220	1,497	150	47	2,914
Loss on disposal of property, plant and equipment	8	3	–	–	11
Allowance for bad and doubtful debts	107	151	431	69	758
Impairment loss recognised in respect of construct in progress	–	–	268	–	268
Write down of inventories to net realisable value	143	302	214	–	659

7. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(a) Business segments *(continued)*

(i) Segment information about these businesses is presented below: *(continued)*

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Blockboard and particle board US$'000	Door skin US$'000	Other wooden products US$'000	Others US$'000	Consolidated US$'000
TURNOVER					
External sales	11,128	8,084	3,273	–	22,485
RESULT					
Segment result	(28)	(342)	(1,218)	–	(1,588)
Unallocated income					287
Unallocated corporate expenses					(1,209)
Finance costs					(746)
Share of results of associates	–	–	(91)	(1,710)	(1,801)
Loss before taxation					(5,057)
Tax charge					(1,040)
Loss for the year					(6,097)

CONSOLIDATED ASSETS AND LIABILITIES

As at 31 December 2005

	Blockboard and particle board US$'000	Door skin US$'000	Other wooden products US$'000	Others US$'000	Consolidated US$'000
ASSETS					
Segment assets	15,559	16,379	3,288	–	35,226
Interests in associates	–	–	1,259	1,749	3,008
Unallocated corporate assets					3,244
Consolidated total assets					41,478
LIABILITIES					
Segment liabilities	1,447	1,114	2,266	–	4,827
Unallocated corporate liabilities					13,548
Consolidated total liabilities					18,375

7. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(a) Business segments *(continued)*

(i) Segment information about these businesses is presented below: *(continued)*

OTHER INFORMATION

For the year ended 31 December 2005

	Blockboard and particle board US$'000	Door skin US$'000	Other wooden products US$'000	Others US$'000	Consolidated US$'000
Additions of property, plant and equipment	468	521	309	–	1,298
Amortisation of prepaid lease payments	69	31	2	–	102
Depreciation of property, plant and equipment	1,096	1,717	147	53	3,013
Loss on disposal of property, plant and equipment	2	6	9	–	17
Reversal (allowance) for bad and doubtful debts	46	(117)	(271)	–	(342)

(b) Geographical segments

The Group's operations are located in Hong Kong and other regions in the People's Republic of China (the "PRC"). Manufacture of the wooden products is carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market	
	Year ended 31.12.2006 US$'000	Year ended 31.12.2005 US$'000
The PRC	**16,020**	14,825
Europe	**4,613**	5,165
Asia excluding the PRC	**3,645**	913
Others	**2,030**	1,582
	26,308	22,485

7. TURNOVER AND SEGMENT INFORMATION *(CONTINUED)*

(b) Geographical segments *(continued)*

The following is an analysis of the carrying amount of consolidated segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of consolidated segment assets		Capital additions	
	Year ended 31.12.2006 US$'000	Year ended 31.12.2005 US$'000	**Year ended 31.12.2006 US$'000**	Year ended 31.12.2005 US$'000
The PRC (including Hong Kong)	**33,573**	37,427	**671**	1,298

8. OTHER INCOME

Other income comprises:

	2006 US$'000	2005 US$'000
Value added tax refund (*Note*)	**545**	1,014
Exchange gain	**29**	13
Interest income	**24**	9
Rental income from lease of plant and machinery	**60**	–
Others	**42**	87
Gain on disposal of other investments	**–**	283
Gain on disposal of associates	**–**	4
	700	1,410

Note: Certain subsidiaries of the Company established in the PRC are involved in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations of the PRC governing the value added tax ("VAT"), such subsidiaries were entitled to a VAT refund totalling US$545,000 (2005: US$1,014,000) for the year ended 31 December 2006.

9. FINANCE COSTS

	2006 **US$'000**	2005 US$'000
Interest on:		
– borrowings from banks and other financial institutions wholly repayable within five years	**786**	619
– three-year loan notes	**97**	97
– other borrowings	**–**	30
	883	746

10. TAX CHARGE

Tax charge comprises:

	2006 **US$'000**	2005 US$'000
PRC Enterprise Income Tax	**(59)**	(12)
Deferred tax charge (*Note 18*)		
– current year	**–**	(91)
– deferred tax assets written-off	**(1,000)**	(937)
	(1,059)	(1,040)

Note: No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong have no assessable profits for both years.

PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the PRC on the estimated assessable profits of subsidiaries.

10. TAX CHARGE *(CONTINUED)*

The tax charge for the year can be reconciled to the loss per the consolidated income statement as follows:

	2006 **US$'000**	2005 US$'000
Loss before taxation	**(7,238)**	(5,057)
Tax at the domestic income tax rate of 33% (2005: 33%)	**(2,389)**	(1,669)
Tax effect of share of results of associates	**888**	594
Tax effect of expenses not deductible for tax purpose	**248**	277
Tax effect of income not taxable for tax purpose	**(201)**	(284)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**216**	196
Effect of preferential tax rates of subsidiaries operating in other jurisdictions in the PRC	**457**	500
Tax effect of deductible temporary differences not recognised	**594**	44
Tax effect of tax losses not recognised	**246**	446
Deferred tax assets written-off	**1,000**	937
Others	**–**	(1)
Tax charge for the year	**1,059**	1,040

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2006 US$'000	2005 US$'000
Directors' remuneration (*Note a*)		
– Fees	33	14
– Other emoluments	61	45
	94	59
Employees' salaries and benefits expense	1,204	1,344
Retirement benefits scheme contributions for staff other than directors (*Note b*)	353	338
Total employee benefits expense	1,651	1,741
Allowance for bad and doubtful debts	758	342
Amortisation of prepaid lease payments	105	102
Auditors' remuneration	232	182
Exchange losses	–	58
Depreciation of property, plant and equipment	2,914	3,013
Impairment loss recognised in respect of club debenture	37	–
Loss on disposal of property, plant and equipment	11	17
Minimum lease payments under operating leases in respect of rented premises	45	29
Write down of inventories to net realisable value	659	–
Cost of inventories recognised as expenses	22,821	20,880

11. LOSS FOR THE YEAR *(CONTINUED)*

Notes:

(a) Emoluments of directors and highest paid employees

(i) The emoluments paid or payable to each of the 12 (2005: 5) directors were as follows:

	Zhang Xi	Zhang Huafang	Cai Duanhong	Hong Po Kui, Martin	Yam Tak Fai, Ronald	Wong Man Hin, Raymond	Yang Ding-Yuan	Meng Tung-Mei, Grace	Edward S. Yang	Lo I-Wang	Chang Jing Yue	Chan Ting-Fung, Tim	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
For the year ended 31 December 2006													
Fees	4	4	4	2	2	2	–	5	–	5	5	–	33
Other emoluments													
Salaries and other benefits	–	–	–	–	–	–	59	–	–	–	–	–	59
Retirement benefits scheme contributions	–	–	–	–	–	–	2	–	–	–	–	–	2
	4	4	4	2	2	2	61	5	–	5	5	–	94

	Yang Ding-Yuan	Meng Tung-Mei, Grace	Edward S. Yang	Chan Ting-Fung, Tim	Lo I-Wang	Total
	US$'000	*US$'000*	*US$'000*	US$'000	US$'000	US$'000
For the year ended 31 December 2005						
Fees	–	5	–	5	4	14
Other emoluments						
Salaries and other benefits	43	–	–	–	–	43
Retirement benefits scheme contributions	2	–	–	–	–	2
	45	5	–	5	4	59

11. LOSS FOR THE YEAR *(CONTINUED)*

(a) Emoluments of directors and highest paid employees *(continued)*

(ii) Emoluments of the directors of the Company were within the following band:

	2006 Number of directors	2005 Number of directors
Nil-HK$1,000,000 (equivalent to US$128,436)	**12**	5

(iii) Of the five individuals with the highest emoluments in the Group, one (2005: one) was a director of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining four (2005: four) individuals are as follows:

	2006 US$'000	2005 US$'000
Salaries and other benefits	**454**	326
Retirement benefit scheme contributions	**5**	4
	459	330

Their emoluments were within the following band:

	2006 Number of individuals	2005 Number of individuals
Not exceeding HK$1,000,000 (equivalent to US$128,436)	**4**	4

(b) Retirement benefits schemes

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

In addition, pursuant to government regulations, for the Group's employees in the PRC, relevant subsidiaries are required to contribute amounts ranging from approximately 14% to 30% of the aggregate staff wages to certain retirement benefit schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contribution.

The total cost charged to the consolidated income statement of US$355,000 (2005: US$340,000) represents contributions to the schemes by the Group at rates specified in the rules of the respective schemes.

12. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year attributable to equity holders of the Company of US$7,017,000 (2005: US$5,068,000) and the weighted average of 9,197,779,755 (2005: 9,181,703,043) shares in issue during the year.

No diluted loss per share is presented for both years as the exercise of the outstanding share options or warrants would result in a decrease in the loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Furniture and fittings	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST						
At 1 January 2005	9,754	34,888	26	1,081	433	46,182
Additions	73	450	–	15	760	1,298
Reclassifications	–	234	–	–	(234)	–
Disposals	–	(201)	–	(4)	–	(205)
At 31 December 2005	9,827	35,371	26	1,092	959	47,275
Currency realignment	683	2,287	–	67	45	3,082
Additions	–	184	–	127	360	671
Reclassifications	38	737	–	–	(775)	–
Disposals	–	–	–	(69)	–	(69)
At 31 December 2006	10,548	38,579	26	1,217	589	50,959
DEPRECIATION						
At 1 January 2005	2,921	24,070	15	951	–	27,957
Provided for the year	534	2,410	5	64	–	3,013
Eliminated on disposal	–	(184)	–	–	–	(184)
At 31 December 2005	3,455	26,296	20	1,015	–	30,786
Currency realignment	266	1,768	–	61	–	2,095
Provided for the year	508	2,354	5	47	–	2,914
Impairment loss recognised	–	–	–	–	268	268
Eliminated on disposal	–	–	–	(48)	–	(48)
At 31 December 2006	4,229	30,418	25	1,075	268	36,015
CARRYING VALUES						
At 31 December 2006	6,319	8,161	1	142	321	14,944
At 31 December 2005	6,372	9,075	6	77	959	16,489

13. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

During the year, the construction work of a manufacturing plant in Shengyang has been suspended and the cost of approximately US$268,000 in respect of the construction in progress was impaired.

The above items of property, plant and equipment are depreciated on a straight-line basis and the rates per annum are as follows:

	Rate per annum (%)
Buildings on land held under short term leases outside Hong Kong	5 to 10
Land and buildings held under medium term leases in Hong Kong	4
Plant and equipment and furniture and fittings	10 to 33
Motor vehicles	20

	2006 US$'000	2005 US$'000
The carrying value of the Group's leasehold land and buildings are held under:		
Medium term lease in Hong Kong	**669**	717
Short term leases in the PRC	**5,650**	5,655
	6,319	6,372

14. PREPAID LEASE PAYMENTS

	2006 US$'000	2005 US$'000
The Group's prepaid lease payments comprise:		
Short term lease in the PRC	**1,013**	1,058
Less: Current portion shown under current assets	**(108)**	(102)
	905	956

The prepaid lease payments are amortised over the term of the leases.

15. INTERESTS IN ASSOCIATES

	2006	2005
	US$'000	US$'000
Cost of unlisted investments	**9,680**	9,680
Share of reserves	**447**	414
Share of post-acquisition losses	**(9,778)**	(7,086)
	349	3,008

Particulars of the Group's associates at 31 December 2006 are as follows:

Name of associate	**Place of incorporation/ registration**	**Place of operation**	**Percentage of issued share capital/registered capital held by the Group** %	**Issued share capital/ registered capital**	**Principal activities**
Fulhua Microelectronics Corporation* 福華微電子股份有限公司	Cayman Islands	Taiwan	31.73	Ordinary US$100,000 and Series A & B preferred shares ** US$21,290,572	Investment holding
瀋陽福陽人造板有限公司 Shenyang Fuyang Wood-Basal Panel Ltd. *(Note 2)*	PRC	PRC	40.00	US$5,000,000	Manufacture and sale of wooden products
天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. *(Note 2)*	PRC	PRC	49.5	US$17,453,021	Manufacture and sale of wooden products
湖北福漢木業有限公司 Hubei Fuhan Timber Co., Ltd. *(Note 2)*	PRC	PRC	48.0	US$4,567,565	Manufacture and sale of wooden products

* Directly held by the Company.

** The Series A and B preferred shares are voting. They are entitled to receive non-cumulative dividends in preference to the ordinary shares for a value of US$0.01 per share each year, when and if dividends are declared by the board of directors of this subsidiary.

In the event of liquidation or winding up of this associate, the holders of the Series A and B preferred shares shall be entitled to receive, pari passu among themselves, but prior to and in preference to the holders of ordinary shares, out of the assets of this associate that is legally available for distribution, an amount equals to US$0.05 per share, together with any declared but unpaid dividends. All remaining assets of this associate, if any, shall be distributed to the holders of Series A and B preferred shares and ordinary shares pro-rata.

Notes:

(1) This company is a wholly foreign owned enterprise of an associate.

(2) Such companies are Sino-foreign equity joint ventures.

15. INTERESTS IN ASSOCIATES *(CONTINUED)*

The summarised financial information in respect of the Group's associates is set out below:

	2006 US$'000	2005 US$'000
Total assets	**9,361**	17,147
Total liabilities	**(11,711)**	(10,691)
Net (liabilities) assets	**(2,350)**	6,456
Group's share of net assets	**349**	3,008
Revenue`	**17,472**	14,910
Loss for the year	**(8,405)**	(5,725)
Group's share of result for the year	**(2,692)**	(1,801)

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of losses of those associates, extracted from the relevant management accounts of the associates, both for the year and cumulatively, are as follows:

	2006 US$'000	2005 US$'000
Unrecognised share of losses of associates for the year	**(347)**	(237)
Accumulated unrecognised share of losses of associates	**(1,315)**	(968)

16. OTHER INVESTMENTS

The investments as at 31 December 2006 comprise:

	2006	2005
	US$'000	US$'000
Equity securities		
Costs of investments	**3,116**	3,116
Less: Impairment loss recognised	**(3,116)**	(3,116)
	–	–

The balance represents investments in unlisted equity securities issued by private entities incorporated in Taiwan and the PRC. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that the fair value cannot be measured reliably as there is no active market information available.

Particulars of the Group's investments in investee companies at 31 December 2006 are as follows:

Name of investee	**Place of incorporation**	**Proportion of nominal value of issued capital attributable to the Group**	**Principal activities**
優網通國際資訊股份有限公司 UniSVR Global Information Technology Corp. ("UniSVR")	Taiwan	9.38%	Provision of information technology outsourcing services
廊坊福洋木業有限公司 Langfang Fuyang Timber Co., Ltd. #	PRC	51%	Manufacture and sale of wooden products

\# The Group holds more than half of the registered capital of this company but is not in a position to control the composition of the board of directors or equivalent governing body of this company and therefore the Group does not control Langfang Fuyang Timber Co., Ltd., and the Group is not in a position to exercise significant influence over this company.

17. CLUB DEBENTURE

	US$'000
FAIR VALUE	
At 1 January 2005, 31 December 2005 and 1 January 2006	37
Less: Impairment loss recognised	(37)
At 31 December 2006	–

The fair value of the Group's club debenture as at 31 December 2006 was nil (2005: US$37,000). The valuation was determined by reference to recent market prices for similar debentures.

18. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group, and the movements thereon during the current and prior periods:

	Allowance for bad and doubtful debts	Allowance for slow moving inventories	Tax losses	Impairment loss in respect of plant and equipment	Accelerated accounting depreciation	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2005	(455)	(301)	(147)	(151)	(917)	(1,971)
(Credit) charge to income statement for the year	(37)	(11)	71	68	–	91
Written-off for the year	43	288	–	–	606	937
At 31 December 2005 and 1 January 2006	(449)	(24)	(76)	(83)	(311)	(943)
Currency realignment	(27)	(1)	(5)	(5)	(19)	(57)
Written-off for the year	476	25	81	88	330	1,000
At 31 December 2006	–	–	–	–	–	–

At the balance sheet date, the Group has unused tax losses of US$16,953,000 (2005: US$15,014,000) available for offset against future profits. No deferred tax has recognised in respect of such losses in 2006. In 2005, deferred tax asset had been recognised in respect of US$315,000 of the tax losses and no deferred tax asset has been recognised in respect of the remaining US$14,699,000 due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$4,101,000 (2005: US$2,504,000) that will expire before 2011. Other losses can be carried forward indefinitely.

In addition, the Group has unrecognised deductible temporary differences of US$21,221,000 (2005: US$15,429,000) arising from allowance for bad and doubtful debts and slow moving inventories, as well as the difference between the tax written down value and carrying value of property, plant and equipment at the balance sheet date. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not certain that taxable profit will be available against which the deductible temporary differences can be utilised.

19. INVENTORIES

	2006	2005
	US$'000	US$'000
Raw materials	**2,935**	3,270
Work in progress	**458**	920
Finished goods	**3,168**	5,039
	6,561	9,229

20. TRADE AND OTHER RECEIVABLES

	2006	2005
	US$'000	US$'000
Trade receivables	**4,390**	4,068
Other receivables	**1,596**	2,493
	5,986	6,561

The Group's policy is to allow an average credit period of 90 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	2006	2005
	US$'000	US$'000
0 – 90 days	**3,535**	2,924
91 – 180 days	**362**	460
More than 180 days	**493**	684
	4,390	4,068

The Group's trade and other receivables are denominated in currencies other than the functional currency, of the relevant entities, are set out below:

	US$'000
As at 31 December 2006	436
As at 31 December 2005	338

21. BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term bank deposits with original maturity of three months or less, and carry interest ranging from 0.62% to 2.5% (2005: 0.62% to 2.25%) per annum.

22. TRADE AND OTHER PAYABLES

	2006 **US$'000**	2005 US$'000
Trade payables	**2,897**	3,724
Other payables	**4,368**	2,359
	7,265	6,083

The following is an aged analysis of trade payables at the balance sheet date:

	2006 **US$'000**	2005 US$'000
0 – 90 days	**1,460**	2,104
91 – 180 days	**88**	144
More than 180 days	**1,349**	1,476
	2,897	3,724

Included in other payables are amounts due to minority shareholders of subsidiaries of US1,845,000 (2005: US$1,031,000) which are unsecured, interest-free and repayable on demand.

23. AMOUNTS DUE TO ASSOCIATES

The amounts due to associates are unsecured, interest free and repayable on demand.

24. AMOUNT DUE TO ULTIMATE HOLDING COMPANY/FORMER ULTIMATE HOLDING COMPANY

The amount unsecured, interest free and repayable on demand.

25. BANK AND OTHER BORROWINGS

	2006 US$'000	2005 US$'000
Secured loans from banks and other financial institutions *(Note a)*	**10,015**	9,665
Unsecured three-year loan notes *(Note b)*	**1,377**	1,384
Unsecured other borrowings *(Note c)*	**282**	565
	11,674	11,614
Carrying amount repayable:		
Within one year	**10,015**	10,887
Between one to two years	**1,377**	461
After five years	**282**	266
	11,674	11,614
Less: Amount due within one year shown under current liabilities	**(10,015)**	(10,887)
Amount due after one year	**1,659**	727

Notes:

(a) The loans from banks and other financial institutions carry fixed interest ranging from 5.58% to 6.70% (2005: 5.58% to 5.84% per annum).

(b) According to the corporate restructuring of the Company and its subsidiaries which was completed on 30 March 2001, the creditors of the Group received three-year loan notes from the Company with an aggregate face value of US$4,400,000 which carry interest at a rate of 7% per annum. The three-year loan notes are repayable in six equal semi-annual instalments. The repayment of the remaining three outstanding instalments of the loan notes amounted to US1,377,000 has been extended to September 2008.

(c) Other borrowings include interest-free borrowings of US$282,000 (2005: US$266,000), which is repayable after five years. At 31 December 2005, the remaining other borrowings carried fixed interest rate at 10% per annum.

The Group's borrowings are denominated in currencies other than the functional currency, of the relevant entities, are set out below:

	US$'000
As at 31 December 2006	1,377
As at 31 December 2005	1,384

26. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary share of US$0.001 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 31 December 2006	100,000,000,000	100,000
Issued and fully paid:		
At 1 January 2005	9,161,779,755	9,161
Issue of shares upon exercise of options	36,000,000	36
At 31 December 2005, 1 January 2006 and 31 December 2006	9,197,779,755	9,197

27. SHARE OPTION SCHEMES

A share option scheme was adopted by the Company on 19 November 2001 (the "Share Option Scheme"). Pursuant to the Share Option Scheme, 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 to subscribe for shares in the Company at a price determined by the directors and not less than the highest of:

(i) The closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the options;

(ii) The average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the options; and

(iii) The nominal value of the shares of the Company on the date of grant.

The issue of options under the Share Option Scheme is subject to a maximum of 30% of the issued share capital of the Company from time to time.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

A consideration of HK$1 is payable on the grant of an option.

Options lapse if the employee leaves the group before the options vest.

27. SHARE OPTION SCHEMES *(CONTINUED)*

Details of the movements of the share options granted under the Share Option Scheme during the year are as follows:

				Number of share options				
Date of grant	Vesting period	Exercise price	Exercise period	Outstanding at 1 January 2005	Exercised during the year	Outstanding at 31 December 2005 and 1 January 2006	Surrendered during the year	Outstanding at 31 December 2006
		HK$					(Note)	
Executive and employees								
30 April 2002	30 April 2002-31 December 2002	0.050	1 January 2003-29 April 2012	31,200,000	–	31,200,000	(31,200,000)	–
30 April 2002	30 April 2002-31 December 2003	0.050	1 January 2004-29 April 2012	23,400,000	–	23,400,000	(23,400,000)	–
30 April 2002	30 April 2002-31 December 2004	0.050	1 January 2005-29 April 2012	23,400,000	–	23,400,000	(23,400,000)	–
24 January 2003	24 January 2003-26 June 2003	0.021	27 June 2003-23 January 2013	60,000,000	–	60,000,000	(60,000,000)	–
28 January 2003	28 January 2003-31 January 2004	0.020	1 February 2004-27 January 2013	20,000,000	(20,000,000)	–	–	–
28 January, 2003	28 January 2003-31 January 2005	0.020	1 February 2005-27 January 2013	16,000,000	(16,000,000)	–	–	–
Sub-total				174,000,000	(36,000,000)	138,000,000	(138,000,000)	–
Directors								
30 April 2002	–	0.050	30 April 2002-29 April 2012	200,000,000	–	200,000,000	(200,000,000)	–
Grand total				374,000,000	(36,000,000)	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.

27. SHARE OPTION SCHEMES *(CONTINUED)*

Pursuant to the Company's shareholders' approval in the special general meeting held on 18 June 2004, the share option scheme of Wood Art International Corporation ("Wood Art"), a subsidiary of the Company, became effective.

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme of Wood Art must not exceed 30% of the number of the issued shares from time to time (subject to the approval of the shareholders of the Company). A consideration of HK$1 is payable on the grant of an option.

Movements in the number of options to subscribe for shares in Wood Art are set out below:

				Number of share options		
	Date of grant	**Exercise period**	**Exercise price**	**Outstanding at 1 January 2005**	**Lapsed during the year**	**At 31 December 2005 and 31 December 2006**
Executive and employee	18 June 2004	18 June 2004-17 June 2007	US$1.00	638	(638)	–

28. CAPITAL COMMITMENTS

At the balance sheet date, the Group had outstanding capital commitments as follows:

	2006 **US$'000**	2005 US$'000
Capital expenditure in respect of acquisition of property, plant and equipment		
– authorised but not contracted for	**357**	1,017
– contracted but not provided for	**–**	426
	357	1,443

29 LEASING ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had outstanding commitment of future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2006	2005
	US$'000	US$'000
Within one year	**46**	44
In the second to fifth year inclusive	**130**	145
Over five years	**–**	23
	176	212

Most of the operating lease payments represent rental payable by the Group for certain of its rented premises for manufacturing purposes in the PRC. Leases are negotiated and rentals are fixed for an average term of five years.

The Group as a lessor

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments in respect of certain plant and machinery:

	2006	2005
	US$'000	US$'000
Within one year	**125**	–
In the second to fifth year inclusive	**195**	–
	320	–

The plant and machinery, with insignificant carrying amount, was leased out for a period of three years and the rentals were pre–determined and fixed.

30. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged certain properties and plant and equipment with carrying amounts of US$8,150,000 (2005: US$9,375,000) respectively to various banks and other financial institutions for securing loans and general credit facilities granted to the Group.

31. RELATED PARTY TRANSACTIONS

The key management personnel are the directors of the Company. The details of their remunerations are set out in note 11.

The Group also had balances with related parties at the balance sheet date which are set out in notes 23 and 24.

32. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
Ta Fu Strategic Investment Limited	British Virgin Islands	Hong Kong	100	US$10,000	Investment holding
Wood Art International Corporation	British Virgin Islands	Hong Kong	100	US$10,000	Investment holding
TGT Holdings Corporation	British Virgin Islands	Hong Kong	100	US$2	Investment holding
Fulbond Business Services Limited	Hong Kong	Hong Kong	100	HK$2	Provision of management services
Fulbond Digital Systems Limited	Hong Kong	Hong Kong	100	HK$2	Inactive
Ta Fu Timber Company Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred * HK$5,000,000	Investment holding
Ta Fu Flooring Company Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred * HK$1,000,000	Inactive
Ta Fu International Development Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred * HK$10,000	Inactive
Fulbond High-Tech Investment Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred * HK$200	Inactive
Ta Fu Furniture Co., Limited	Hong Kong	Hong Kong	100	Ordinary HK$20 and deferred * HK$20	Inactive
Senbond Building Materials Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred * HK$10,000	Provision of management services

32. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(CONTINUED)*

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
Ta Fu Properties Co., Limited	Hong Kong	Hong Kong	100	Ordinary HK$20 and deferred * HK$20	Property investment
瀋陽福昇中密度板有限公司 Shenyang Fusheng Wood Clipboard Co., Ltd. *(Note)*	PRC	PRC	51	US$3,000,000	Manufacture and sale of wooden products
吉林省福春木業有限公司 Jilin Province Fuchun Timber Co., Ltd. *(Note)*	PRC	PRC	55	RMB17,464,000	Manufacture and sale of wooden products
吉林福敦木業有限公司 Jilin Fudun Timber Co., Ltd. *(Note)*	PRC	PRC	67	RMB223,158,165	Manufacture and sale of wooden products

* The deferred shares are non-voting and are not entitled to participate in the distribution of profits in any financial year and are only entitled to a return of capital on liquidation when the net assets of the relevant company available for distribution are in excess of HK$100,000,000,000,000,000.

Note: Such companies are Sino-foreign equity joint ventures.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

33. POST BALANCE SHEET EVENT

On 20 March 2007, the Company entered into the sale and purchase agreement with a third party, to dispose of the Group's 31.73% interest in Fulhua Microelectronics Corporation ("Fulhua"), at a cash consideration of US$340,000. Upon the completion of the sale and purchase of the sale shares, the Group has no equity interest in Fulhua and Fulhua will cease to be an associate of the Group. The consideration was paid by the purchaser upon signing of the agreement.

34. BALANCE SHEET OF THE COMPANY

	At 31 December	
	2006	2005
	US$'000	US$'000
Non-current assets		
Property, plant and equipment	**–**	2
Investments in subsidiaries	**–**	–
Interests in associates	**340**	2,852
	340	2,854
Current assets		
Other receivables	**21**	120
Amounts due from subsidiaries	**2**	14,605
Bank balances and cash	**10**	303
	33	15,028
Current liabilities		
Other payables	**316**	130
Amounts due to subsidiaries	**1,470**	698
Amount due to ultimate holding company	**560**	560
Other borrowings-amount due within one year	**–**	923
	2,346	2,311
Net current (liabilities) assets	**(2,313)**	12,717
	(1,973)	15,571
Capital and reserves		
Share capital	**9,197**	9,197
Reserves	**(12,547)**	5,913
	(3,350)	15,110
Non-current liability		
Other borrowings – amount due after one year	**1,377**	461
	(1,973)	15,571

The loss for the year ended 31 December 2006 of the Company amounted to approximately US$18,460,000 (2005: US$1,031,000).

The accumulated losses as at 31 December 2006 amounted to approximately US$61,805,000 (2005: US$43,345,000). The Company has no reserve available for distribution as at 31 December 2006.

FINANCIAL SUMMARY

The following tables summarise the Group's consolidated results for the five years ended 31 December 2006 together with the Group's net assets as at 31 December 2006, 2005, 2004, 2003 and 2002.

1. RESULTS

	2006	2005	2004	2003	2002
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**26,308**	22,485	24,532	28,114	31,505
Loss before taxation	**(7,238)**	(5,057)	(4,561)	(5,607)	(16,068)
Taxation	**(1,059)**	(1,040)	1,030	259	266
Loss for the year	**(8,297)**	(6,097)	(3,531)	(5,348)	(15,802)
Attributable to:					
Equity holders of the Company	**(7,017)**	(5,068)	(2,995)	(4,653)	(13,584)
Minority interests	**(1,280)**	(1,029)	(536)	(695)	(2,218)
	(8,297)	(6,097)	(3,531)	(5,348)	(15,802)

2. ASSETS, LIABILITIES AND MINORITY INTERESTS

	2006	2005	2004	2003	2002
	US$'000	US$'000	US$'000	US$'000	US$'000
Property, plant and equipment	**14,944**	16,489	18,225	22,647	34,837
Interests in associates	**349**	3,008	4,859	4,958	4,544
Goodwill	**–**	–	–	–	3,079
Investments in securities	**–**	–	441	1,974	1,974
Other non-current assets	**905**	1,936	3,059	2,180	2,296
Net current (liabilities) assets	**(599)**	2,397	4,203	2,589	4,093
Non-current liabilities	**(1,659)**	(727)	(727)	(727)	(6,248)
Net assets	**13,940**	23,103	30,060	33,621	44,575
Minority interests	**4,983**	7,944	9,969	10,604	17,621