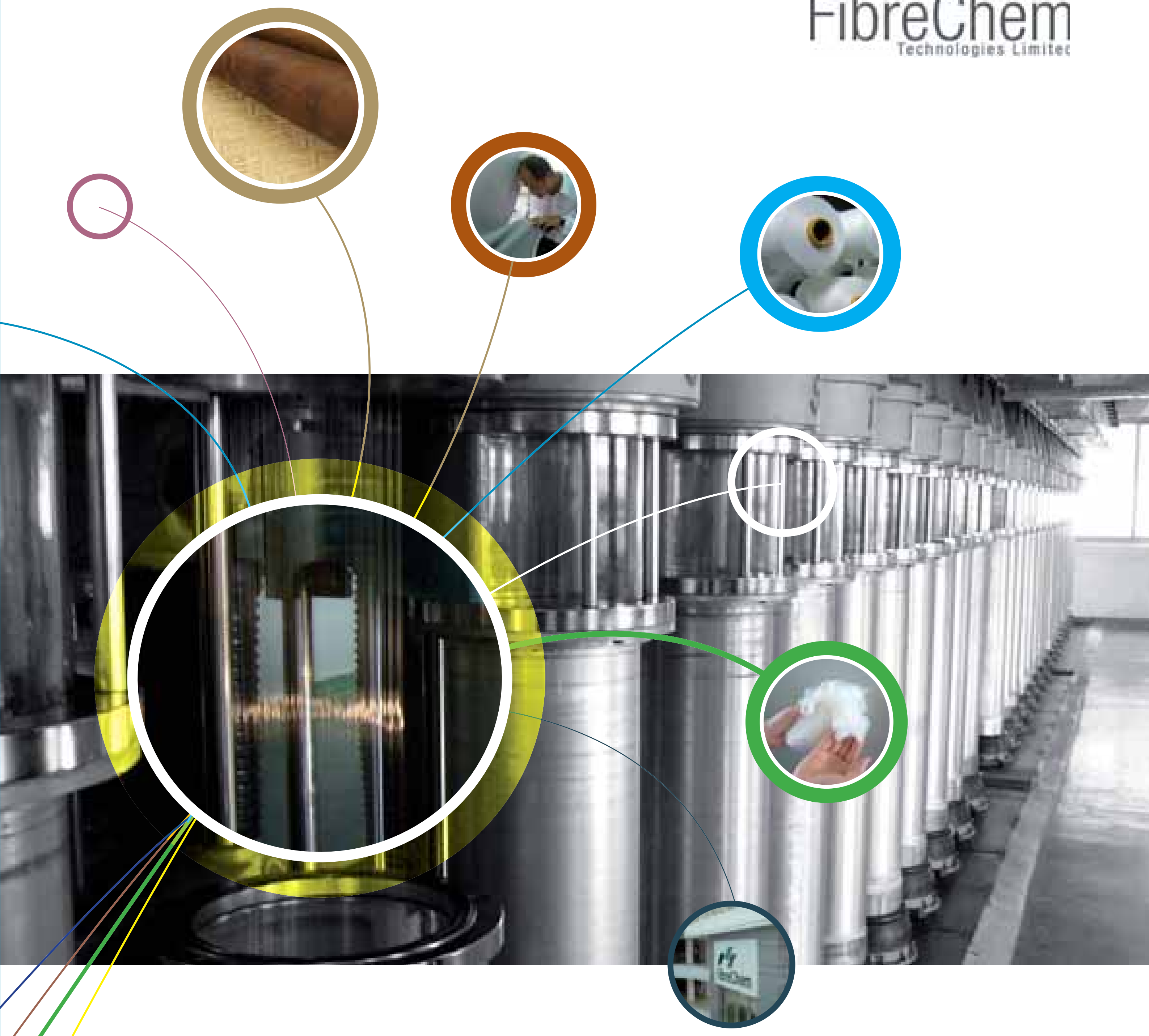
FibreChem Technologies Limited



ANNUAL REPORT 2006

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CORPORATE PROFILE

FIBRECHEM TECHNOLOGIES LIMITED ("FibreChem" or "the Group") is a chemical fibre manufacturer based in Fujian Province of the PRC. Since its establishment in 1995, the Group has moved up the value chain from producing normal and differential polyester fibres to higher margin differential nylon-polyester bi-component fibre products.

In December 2004, the Group commenced production of its differential nylon-polyester bi-component long fibre. These are manufactured in their facility located in Quanzhou, Fujian Province.

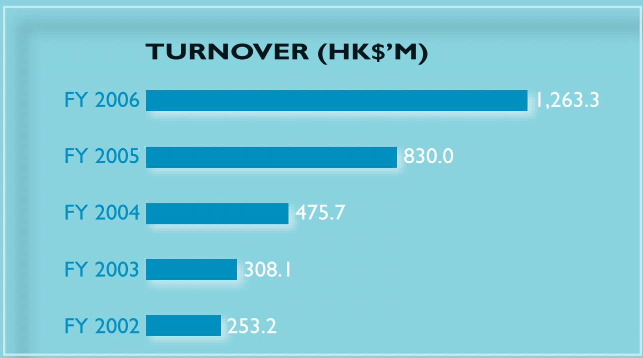
In September 2005, FibreChem launched its new "core-sheath" nylon-polyester bi-component long fibre, which acts as a substitute for certain pure nylon products. Currently, the Group boasts a total production capacity of 47,000 tonnes per annum for these two fibre products.

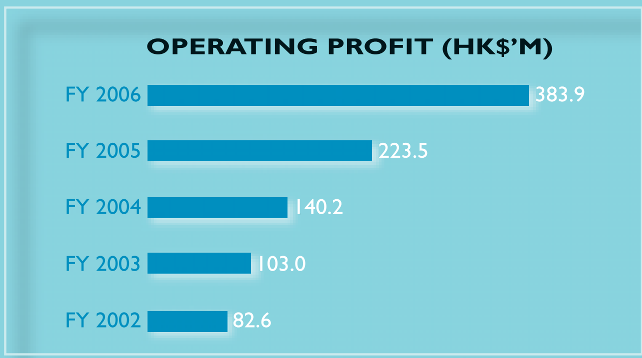
FibreChem launched its uniform sea-island short fibre in January 2006. The uniform sea-island short fibre is the feedstock for the microfibre synthetic leather. Synthetic leather production was in turn commissioned in September 2006. The production facility is capable of producing up to 12 million metres of high-end synthetic leather per annum.

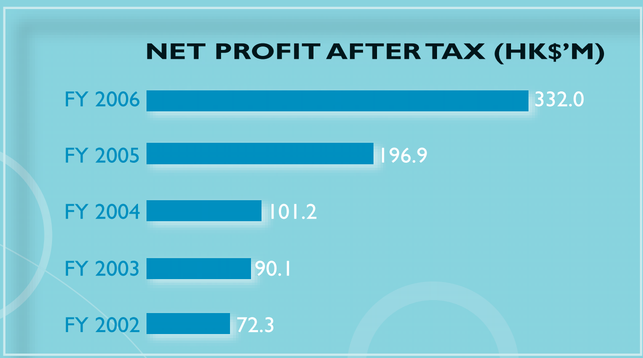
The Group places strong emphasis on new product innovations to stay ahead of the industry. Besides reaping higher margins, these new products will also offer a wider range of applications for downstream customers and will continue to set FibreChem apart from other chemical fibre manufacturers. FibreChem was listed on the Main Board of the Singapore Exchange Securities Trading Limited in April 2004.

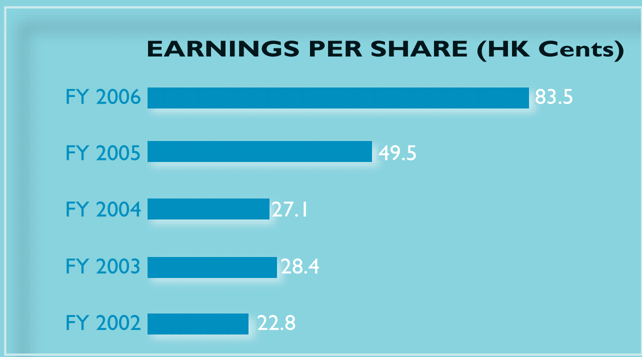
FINANCIAL HIGHLIGHTS

FIVE-YEAR FINANCIAL SUMMARY

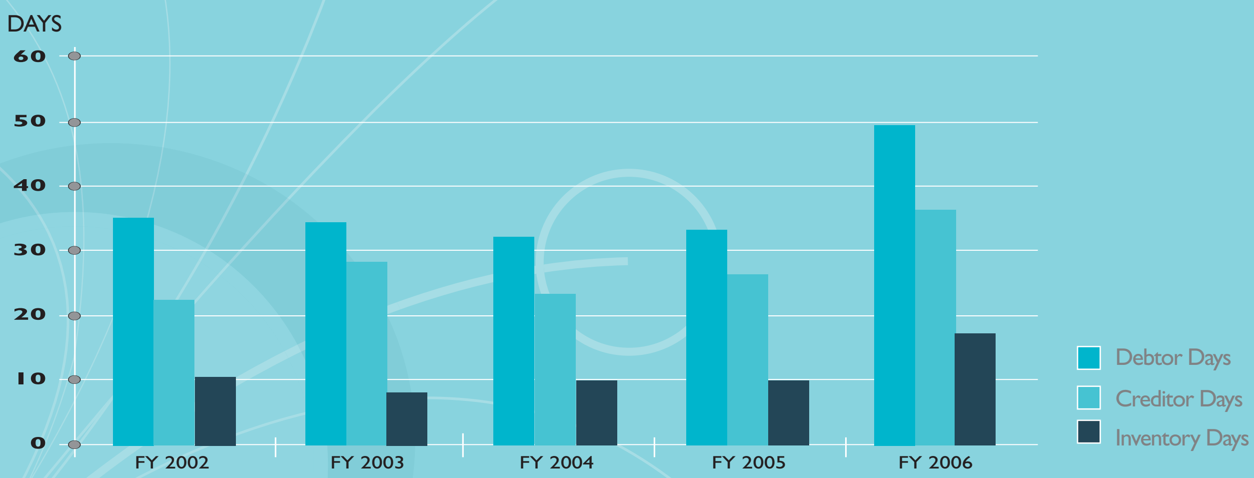








WORKING CAPITAL MANAGEMENT



YEAR	FY2002	FY2003	FY2004	FY2005	FY2006
Debtor days	35	34	32	33	49
Creditor days	22	28	23	26	36
Inventory days	10	8	10	10	17

FINANCIAL HIGHLIGHTS

FINANCIAL YEAR ENDED 31 DECEMBER

GROUP (HK$'000)	FY2002	FY2003	FY2004	FY2005	FY2006
FINANCIAL PERFORMANCE					
Turnover	253,246	308,115	475,692	829,986	1,263,259
Gross Profit	99,005	119,671	167,438	287,596	476,309
Profit before tax	82,604	103,004	140,209	223,508	383,855
Profit after tax	72,325	90,123	101,169	196,890	332,022
FINANCIAL STRENGTH					
Cash and cash equivalents	48,381	148,623	136,168	34,011	252,286
Debt and borrowings	-	-	-	19,375	388,655
Net current assets	56,027	153,071	159,511	47,851	234,092
Shareholders' fund	285,862	375,985	589,785	798,248	1,136,427
CASH FLOW POSITION					
Cash generated from operating activities	36,818	106,784	95,077	208,324	189,928
Cash used in investing acitivities	(69)	(6,542)	(277,107)	(404,662)	(358,099)
Cash generated from financing activities	-	-	117,986	133,443	369,280

CHAIRMAN'S STATEMENT

Dear Shareholders,

It has been an exhilarating year for our Group and I am pleased to present to you our annual report for the financial year ended 31 December 2006 ("FY2006").

The Group has achieved an exciting year of growth. The successful launch of the uniform sea-island bi-component short fibre and microfibre synthetic leather has marked a strategic milestone for the Group.

Since our Group's listing in 2004, we have grown from strength to strength. 2006 marks our successful entry into the synthetic leather space. Today, we are PRC's only fully integrated producer who is capable of manufacturing superior quality uniform microfibre leather that matches international standards and quality.

In September 2006, FibreChem participated in the 11th China (Wenzhou) International Leather Fair, which attracted over 120 leather suppliers from both the PRC and beyond. Since then, FibreChem has been showcasing its new microfibre leather products in major trade shows around the PRC and Germany. FibreChem's microfibre leather products have caused an apparent stir in a market that was previously dominated by synthetic materials that have not been updated for many years.

Our leather products are also environmentally friendly. This represents the Group's dedication to environmental protection, while setting the platform for global market outreach. The market responses we have received so far affirmed the quality and potential of our synthetic leather products.

In November 2006, FibreChem entered into a contract with a major synthetic shoe leather distributor to supply a minimum of 450,000 yards of microfibre leather monthly for the Fujian Province of the PRC. This exclusive distributorship will ensure a substantial uptake of the Group's microfibre leather for sports shoes, while we extend our marketing focus to the fashion, upholstery and carrywear leather markets.

We are optimistic about the Group's further growth in the coming periods. The results we witness today are reflective of our strength in technological innovation and pursuit, which have been the driving forces behind FibreChem.

Apart from the launch of new products, the Group has been expanding its market reach with

The successful launch of the uniform sea-island bi-component short fibre and microfibre synthetic leather has marked a strategic milestone for the Group.

Our revenue surged 52.2% to a record high of HK$1.3 billion in FY2006 compared to HK$830.0 million in FY2005

its core chemical fibre products. Demand for our nylon-polyester bi-component long fibres and core-sheath bi-component long fibres have been strong, and we are expanding capacities to meet these demand growth.

Financial Scorecard

The Group's performance grew in line with our strategic initiatives. Our revenue surged 52.2% to a record of HK$1.3 billion in FY2006 compared to HK$830.0 million in FY2005. Net profit expanded by 68.6% year-on-year to HK$332.0 million.

Turnover increased with new contributions from the uniform sea-island short fibre and microfibre leather. FY2006 also recorded a full year contribution from the core-sheath long fibre. The Group's financial position remained strong as at end of FY2006.

Buoyed by the excellent results in FY2006, we are pleased to propose a one-for-one bonus issue of new ordinary shares to reward our shareholders for their enduring support.

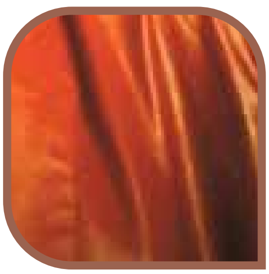
Moving forward

The synthetic leather market in the PRC presents us with vast opportunities. If you may recall, top international fashion brands such as the American label, Gap, and Swedish fashion brand, H&M, had announced plans to open retail shops in Shanghai. With more of such international brands entering the PRC market, we are poised to capitalise on the growing fashion apparel market. Our breakthrough range of synthetic upholstery leather is garnering the attention of established sofa makers. We are also working towards supplying our microfibre shoe leather to international shoe makers. And all these are happening amidst growing demand for our bi-component chemical fibre products. We expect 2007 to herald another year of broad-based expansion for the Group.

Acknowledgements

Most importantly, I wish to thank our shareholders, customers, business partners and dedicated employees for their faith and contributions to our growth at all levels. I would also like to take this opportunity to acknowledge the invaluable contributions from our board of directors for their commitment and dedication to the corporate governance and continuing development of FibreChem Technologies Limited.

Mr James Zhang
Executive Chairman



BOARD OF DIRECTORS

MR JAMES ZHANG
Executive Chairman

Mr James Zhang is the founder and was appointed as the Executive Chairman and Executive Director on 19 September 2003. Mr Zhang is responsible for our corporate planning, strategic business development and overall management. He graduated from the Fujian Agricultural College in Fujian Province, the PRC, in 1987 with a Bachelor Degree in Agricultural Engineering. He devotes most of his time in the PRC and the remaining time in Hong Kong according to his workload in managing the business. Before founding the business in 1995, Mr Zhang was the Vice Chairman of Fujian Jinjiang Lihua Electronic Company Limited from 1992 to 1994. Mr Zhang has been the Vice Chairman of The Industry and Commerce Federation of Licheng District, Quanzhou City since 1999.

MR CHEUNG FEI PANG
Executive Vice Chairman

Mr Cheung Fei Pang was appointed as the Executive Vice Chairman and Executive Director on 19 September 2003. He is responsible for the corporate planning, sales and marketing, and oversees the operations in the PRC since joining the Group in May 1995. Mr Cheung devotes most of his time in the PRC and the remaining time in Hong Kong. He graduated from the Seventh College of Quanzhou in 1992 with a college degree. He was the Deputy General Manager of a fabric trading company in the PRC during the period from 1994 to 1995 and was responsible for the operations of that company. He is the brother of Mr James Zhang.

MR LOW CHECK KIAN
Non-Executive and Non-Independent Director

Mr Low Check Kian was appointed as a Non-Executive and Non-Independent Director on 31 January 2005. Mr Low is currently the Chairman of NewSmith Capital Partners (Asia), an investment management and corporate advisory partnership with offices in London, New York, Singapore, Hong Kong and Japan. Prior to establishing NewSmith Capital Partners, Mr Low was a Senior Vice-President and Member of the Executive Management Committee of Merrill Lynch & Co., as well as the Chairman for Merrill Lynch Asia Pacific. Mr Low has served as a Non-Executive Director on the Board of the Singapore Exchange (SGX) since 2000, and was appointed Lead Independent Director in May 2006. He also sits on the Board of the Singapore Workforce Development Agency and is serving as the Chairman of its Investment Committee. Mr Low had also held several advisory roles on various Singapore Government Committees including the Financial Centre Advisory Group. Mr Low graduated from the London School of Economics (LSE) with a B.Sc. (Econ)(First Class Honours) in June 1983 and a M.Sc. (Econ) in June 1984. During his stay at the LSE, he was awarded the Allan Young Prize, the Baxter-Edey Award and the Henry Luce Foundation Award.

DR CHONG WENG CHIEW
Independent Director

Dr Chong Weng Chiew was appointed as an Independent Director on 12 March 2004. Dr Chong is a medical doctor. From January 2003 to June 2005, Dr Chong was the Chief Executive Officer of Ang Mo Kio Hospital. Prior to joining Ang Mo Kio Hospital, Dr Chong was the medical director of Thye Hua Kwan Moral Society from December 2001 to December 2002, and a medical director of Singapore Buddhist Welfare Services from May 1997 to November 2001, and a medical doctor with the Ministry of Health (Singapore) Health Care from May 1993 to April 1995. Dr Chong holds a MBBS (Bachelor of Surgery, Medicine) degree from the National University of Singapore and has been a Member of Parliament representing the Tanjong Pagar Group Representation Constituency from October 2001 to April 2006. Dr Chong is also an independent director of Reyoung Pharmaceutical Holdings Limited, United Envirotech Limited, Scorpio East Holdings Limited, all of which are companies listed on the SGX-ST.

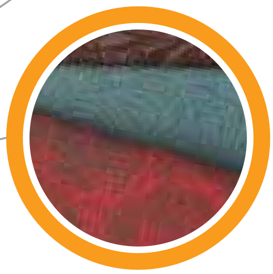
MR ONG TIONG SENG
Lead Independent Director

Mr Ong Tiong Seng was appointed as the Lead Independent Director of the Group on 26 February 2007. He has been an Independent Director of the Group since 12 March 2004. Mr Ong is currently the Chairman of Cogent Financial Group (HK) Limited, an investment fund company. He is also the Vice Chairman of Provenance Capital Pte Ltd, an investment banking business. At the same time, he is also active in the oil industry through his directorship with Concord Energy Pte Ltd. Prior to joining the private sector, Mr Ong worked with the Economic Development Board of Singapore. Mr Ong graduated with a Bachelor of Commerce Degree (Banking and Finance) from University of Canberra in 1992 and a Master of Economics Degree from Macquarie University, Australia in 1993.

MR LIM CHIN TONG
Independent Director

Mr Lim Chin Tong was appointed as an Independent Director on 12 March 2004. He is currently an Executive Director of Jiaxinda Printing Group (S) Pte Ltd and was formerly the CEO of Xpress Holdings Ltd. His career spanned many years with the Economic Development Board and more recently with Xpress Holdings Ltd. Amongst his other corporate responsibilities, Mr Lim sits on the Board of Metal Component Engineering Ltd, Link Hi Holdings Pte Ltd, Encus International Pte Ltd and Atlas Vending Pte Ltd. In the academic arena, Mr Lim is a member of the Board of Governors of Nanyang Polytechnic and Ahmad Ibrahim Secondary Primary School Advisory Committee. Mr Lim has a B. Sc. (Hons) degree from the University of Leeds (UK) and a Diploma in Business Administration from NUS. In addition, he attended the Program for Management Development at the Harvard Business School.

KEY EXECUTIVES



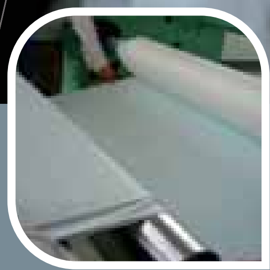
MR ZHENG PEIRONG is a qualified accountant and the Chief Financial Officer. He is responsible for the overall financial planning and management and supervision of the accounting staff, including the preparation and submission of financial reports of the Group's Chinese subsidiaries for statutory purposes, as well as liaison with PRC tax and other regulatory bodies. He graduated from the financial accounting department of Sanming Vocational University in the PRC in 1966. Mr Zheng has over 30 years of experience in financial accounting.

MR XU XUHUI is the General Manager and is responsible for assisting the Executive Chairman, Mr James Zhang, in the overall strategic planning, administration and public relations functions. He graduated from the electronic department of Fuzhou University in the PRC in 1991. Mr Xu has over 10 years of experience in operations management.

MR LEE KAM WAN* was the Financial Controller and Company Secretary. Mr Lee was responsible for the financial reporting and company secretarial matters of the Group in Hong Kong, including preparation of financial reports and ensuring compliance with Hong Kong and Singapore statutory requirements. He has over 10 ten years of experience in audit and accounting. He holds a Bachelor (Honours) Degree in Business Administration from The Chinese University of Hong Kong. He is also an associate of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and a Certified Public Accountant.

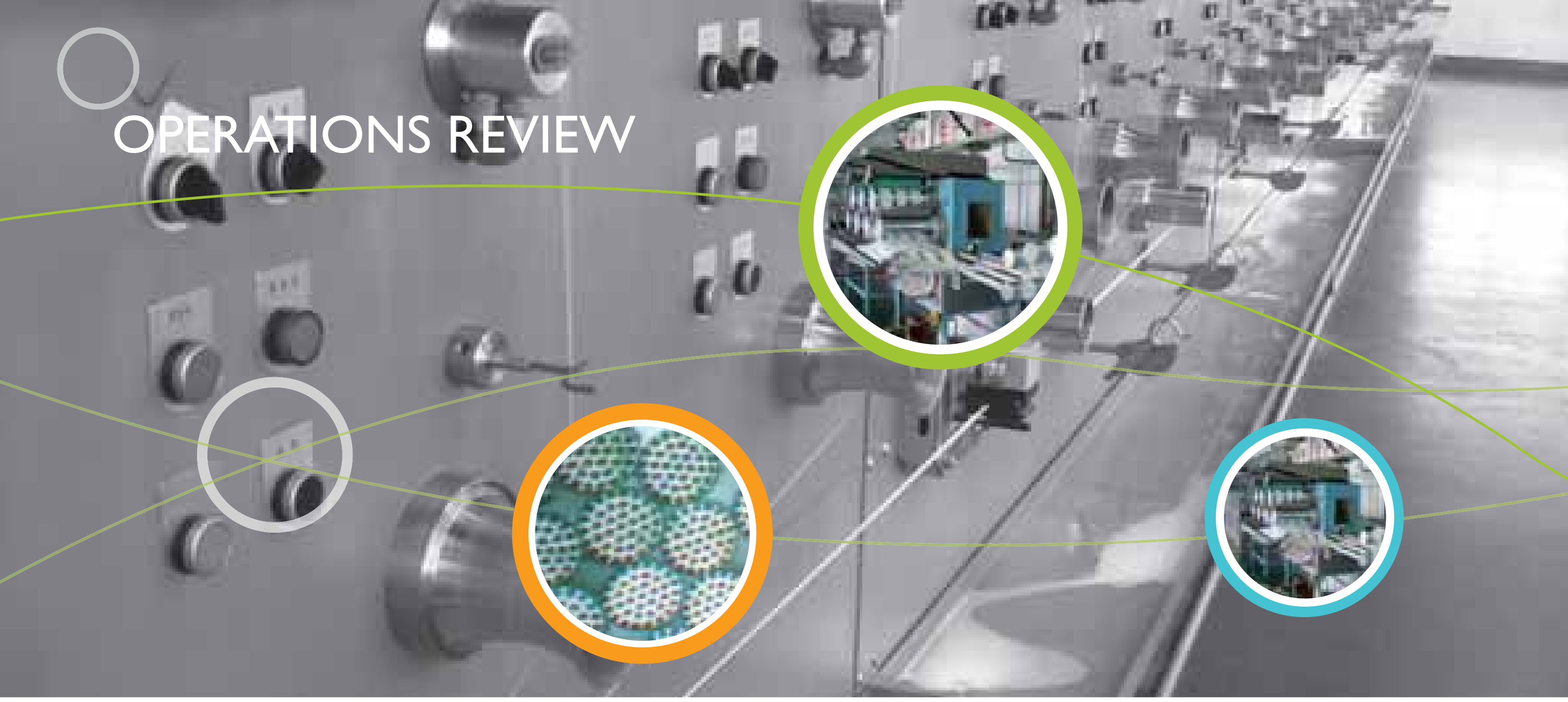
**Mr Lee Kam Wan resigned from the Company on 27 February 2007.*

MR CHRISTOPHER TAN is the Financial Controller and Company Secretary. He is responsible for the financial reporting and company secretarial matters of the Group in Singapore, including the preparation of financial reports and ensuring compliance with Singapore listing and other statutory requirements. He has over 7 years of experience in audit and accounting. He holds a degree in Bachelor of Accountancy from Nanyang Technological University in Singapore, and is a Certified Public Accountant with the Institute of Certified Public Accountants of Singapore.



FibreChem Technologies Limited is a key player in the high quality chemical fibre industry, leveraging on its state-of-the-art technologies and R&D expertise

OPERATIONS REVIEW



TURNOVER

The Group's turnover for the year ended 31 December 2006 ("FY2006") rose 52.2% to HK$1.3 billion from HK$830.0 million in FY2005.

The surge in revenue can be attributed to significant contributions from sales of microfibre leather (since September 2006) and non-woven fabric (since July 2006), in addition to a full-year contribution from the core-sheath bi-component long fibre (launched in September 2005). The 74.4% increase in revenue for the fourth quarter over the third quarter was attributed to the sales of the microfibre leather and non-woven fabric.

PRODUCT SALES

Differential Nylon-Polyester Bi-Component Long Fibre

The higher value differential nylon-polyester bi-component fibre has raked in sales amounting to approximately HK$486.0 million in FY2006. It gives end products qualities such as softness and better water absorption capabilities.

"Core-Sheath" Nylon-Polyester Bi-Component Long Fibre

Launched in September 2005, the core-sheath nylon-polyester bi-component long fibre raked in sales amounting to approximately HK$467.0 million in FY2006. The product is commonly used as a substitute for common grade fibres.

Uniform Sea-Island Bi-Component Short Fibre and Microfibre Synthetic Leather

Launched in January 2006, the uniform sea-island bi-component short fibre is the feedstock for the microfibre leather. The microfibre leather was in turn launched in September 2006. Prior to that, the leather product was sold in its intermediary form as non-woven fabric. Sales of non-woven fabric and microfibre leather amounted to approximately HK$201.0 million for the year. A portion of the uniform short fibre produced was also sold in the market during the year.

The microfibre leather is mainly targeted at four markets – shoes, furniture upholstery, carrywear and fashion apparel. The higher margined microfibre leather products are expected to lift the Group's performance in the ensuing periods.

GROSS PROFIT

Gross profit for the year increased by HK$188.7 million to HK$476.3 million. Due to higher revenues and margin contributions from microfibre leather products that were launched in the second half of FY2006, we were able to improve our overall gross profit margin to 37.7% for the year.

EXPENSES

In line with the Group's increased activities associated with a wider product mix, selling and distribution expenses increased by 47.6% year-on-year. Increased advertising, travelling and staff costs, which were incurred in the course of marketing the new microfibre leather products, largely contributed to the increase in expenses.

Administrative, financial and other operating expenses increased by 42.8% to approximately HK$62.9 million. This was mainly attributed by interest and other expenses incurred in relation to new bank loans obtained (FY2005: HK$9,000), dividend paid in respect of the liability component of the redeemable non-cumulative convertible preference shares (FY2005: HK$786,000) and the depreciation on new assets acquired during the year. The increases were partially offset by a decrease in loss on fixed assets disposal (FY2005: HK$16.4 million).

NET PROFIT

The Group exceeded its 2006 net profit after tax target of HK$280.0 million committed by the Group in relation to the issuance of the redeemable non-cumulative convertible preference shares.

A combination of the high revenue growth and higher margin products enabled us to achieve a boost in net profit for FY2006. Net earnings for FY2006 totalled HK$332.0 million, which represented an increase of 68.6% over HK$196.9 million in FY2005.

Net profit margin improved from 23.7% in 2005 to 26.3% in 2006.

EMPLOYEES

As at 31 December 2006, the total number of full-time employees of the Group was 667 (2005: 333) with total staff cost amounting to HK$31.1 million (2005: HK$19.9 million). Staff costs include salaries, directors' fees, bonuses and employee-related regulatory contributions.

GEARING RATIO

As at 31 December 2006, the Group has a gearing ratio of 0.3 times. (2005 : 0.024 times)

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material contingent liabilities.

TAXATION

The tax charge represents applicable PRC corporate income tax provided for the period.

With effect from 2005, Xiamen Hongxin Specialised Fibre Co., Ltd. ("Xiamen Specialised"), a subsidiary of

the Company, which operates in the People's Republic of China ("PRC"), is exempted from the PRC state and local enterprise income tax for the first two profitable financial years of operation and thereafter a 50% relief from the PRC state income tax for the following three years. Accordingly, the income of Xiamen Specialised is not subject to tax in 2006, but will be subject to tax in 2007 at a rate of 7.5%.

Xiamen Hongxin Microfibre Materials Co., Ltd ("Xiamen Microfibre") has opted to pay the full state income tax (15%) and local income tax (1.5%) for 2006. With effect from 2007, Xiamen Microfibre will be exempted from the state and local income tax for two years and thereafter at a 50% relief for the following three years.

Quanzhou Honglin Chemical Fibre Co., Ltd is subject to the full state income tax (24%) and local income tax (3%) as its tax relief period had expired on 31 December 2003.

FINANCIAL POSITION

Net tangible assets increased by 40.5% to approximately HK$1.1 billion (2005: HK$757.5 million).

The Group's total cash amounted to approximately HK$252.3 million as at 31 December 2006 (2005: HK$34.0 million) due mainly to proceeds from new bank loans raised. This contributed to the increase in current ratio to 1.69 times as at year-end (2005: 1.48 times).

Trade receivables increased after the launch of the sea-island short fibre and microfibre leather in January and September 2006 respectively. Average debtors' turnover increased to 49 days (2005: 33 days) due to longer collection periods for microfibre leather products. Prepayments made for raw materials at year-end, together with a refundable deposit paid for purchasing new land, pushed up the amount of other receivables and prepayments balance.

Machinery purchased during the year accounted for the increase in property, plant and equipment, together with deposits of approximately HK$140.7 million paid for these assets. A deposit of approximately HK$48.0 million was also made for the acquisition of a new plot of land.

Inventories increased to approximately HK$55.0 million (2005: HK$17.9 million) in line with the expansion into new product lines – sea-island short fibre and microfibre leather. New inventories relating to microfibre leather production, which included works-in-progress, significantly increased average inventory turnover to 17 days (2005: 10 days).

The rise in trade payables to approximately HK$101.4 million (2005: HK$54.1 million) was the result of an increase in production activities. Higher accruals at end of 2006 mainly resulted from accruing outstanding payments for new machinery, higher salaries and fees, and interest payments on loans obtained during the year.

RISK MANAGEMENT

The Board does not have a risk management committee. However, the management reviews the Company's business and operational activities on a regular basis to identify areas of business risks as well as appropriate control measures to mitigate these risks. Any significant matters are reported to the directors and the Audit Committee.

PROSPECTS

Since the successful launch of the microfibre synthetic shoe leather in September 2006, the Group acquired a contract with a major distributor that ensured a significant take-up of the synthetic leather capacity going forward. The Group is now focusing on opening up the synthetic fashion leather market, in addition to synthetic leather markets for furniture upholstery and carrywear.

Fashion leather samples have been distributed to potential customers and their feedback has been good. Orders for synthetic fashion leather were expected in the second quarter of 2007, which will contribute significantly to the Group's growth for the year. This will also determine further expansion plans for the sea-island short fibre and microfibre leather production capacities.

Expansion works for bi-component long fibres (nylon-polyester fibre and core-sheath fibre) are well underway. The new production line with production capacity of 10,000 tonnes per annum is expected to be operational by the second quarter of 2007, with a further expansion of production capacity of 40,000 tonnes per annum planned in the coming three years. New land was also purchased in preparation for increasing microfibre leather production capacities.

Barring unforeseen circumstances, the Group is optimistic of achieving further growth in 2007.

CORPORATE INFORMATION

BOARD OF DIRECTORS

James Zhang	Executive Chairman
Cheung Fei Pang	Executive Vice Chairman
Ong Tiong Seng	Lead Independent Director
Dr Chong Weng Chiew	Independent Director
Lim Chin Tong	Independent Director
Low Check Kian	Non-Executive and Non-Independent Director
Tan Sin Mui	Alternate Non-Executive and Non-Independent Director to Low Check Kian

COMPANY SECRETARIES

Sophia Lim Siew Fay, ACIS
Christopher Tan Seng Kiat, CPA

ASSISTANT COMPANY SECRETARY

Ira Stuart Outerbridge III, ACIS

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda
Tel: (1) (441)-2951-422
Fax: (1) (441)-2924-720

REGISTRATION NUMBER

34132

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Industrial Area of XiangBei
Xiang'An District
Xiamen
Fujian Province
The PRC

BERMUDA SHARE REGISTRAR

Codan Services Limited
Claredon House
2 Church Street
Hamilton HM 11
Bermuda

SINGAPORE SHARE TRANSFER AGENT

Lim Associates (Pte) Ltd
3 Church Street #08-01
Samsung Hub
Singapore 049483
Tel: (65) 6536-5355
Fax: (65) 6536-1360

AUDITORS

Deloitte & Touche
Certified Public Accountants
6 Shenton Way #32-00
DBS Building Tower Two
Singapore 068809
Partner-in-charge: Cheung Pui Yuen
Partner since financial year ended December 31, 2003

PRINCIPAL BANKER

Agricultural Bank of China
Xiang'An Branch
NongHang Building
XinXing Street, Xiang'An District
Xiamen, Fujian Province
The PRC

FINANCIAL CONTENTS

CORPORATE GOVERNANCE STATEMENT

Fibrechem Technologies Limited (the "Company") and the Management is committed to maintaining a high standard of measures, practices and transparency in the disclosure of material information in line with those set out in the new Code of Corporate Governance 2005 (the "Code").

The Company has established various self-regulating and monitoring mechanisms to ensure that effective corporate governance is practiced as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and financial performance of the Group.

This report describes the Company's corporate governance processes and structures that were in place throughout the financial year, with specific reference made to the principles and guidelines of the Code which forms part of the Continuing Obligations of the Singapore Exchange Securities Trading Limited's ("SGX-ST") Listing Manual.

The Board is pleased to confirm that for the financial year ended 31 December 2006 the Company has generally adhered to the principles and guidelines as set out in the Code.

BOARD MATTERS

BOARD'S CONDUCT OF ITS AFFAIRS

Principle 1: Effective Board to lead and control the Company

The Board's primary role is to protect and enhance long-term shareholders' value. Its responsibilities are distinct from management responsibilities. Apart from its fiduciary duties, the Board provides strategic guidance for the Group and supervises executive management. The Board also establishes policies on matters such as financial control, financial performance and risk management procedures and establishes goals for management and monitors the achievement of these goals, thereby taking responsibility for the overall corporate governance of the Group.

To assist in the execution of its responsibilities, the Board has established several Board Committees namely, an Audit Committee ("AC"), a Nominating Committee ("NC") and a Remuneration Committee ("RC"). These committees function within clearly defined terms of reference, which are reviewed on a regular basis. The terms of reference for the respective committees have incorporated the recent changes under the Code.

The Board meets at least four times a year. Ad-hoc meetings are convened when circumstances so require. The frequency of meetings and attendance of each director at every board and board committee meeting are disclosed in this Report.

The attendance of the Directors at Board meetings and Board Committee meetings are as follows:

	Board (Regular)	Audit Committee	Remuneration Committee	Nominating Committee
No. of meetings	4	4	1	1
No. of meetings attended by respective Directors				
Executive Directors:				
James Zhang	4	4**	1	1
Cheung Fei Pang	3	3**	-	-
Non-Executive Director:				
Low Check Kian	3	3**	1**	1**
Tan Sin Mui	4	4**	-	1**
(Alternate director to				
Low Check Kian)				
Independent Non-Executive Directors:				
Ong Tiong Seng	4	4	1	1
Dr Chong Weng Chiew	4	4	1	1
Lim Chin Tong	4	4	1	1
Lam Yick Lam#	1	1	1	1

** By Invitation

Mr Lam Yick Lam had retired as a Director with effect from 28 April 2006.

Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest for a substantial shareholder or a director, material acquisitions, disposal of assets, operating budgets and capital expenditure, corporate or financial restructuring, share issuances, declaration of dividends and other returns to shareholders and matters which require Board approval as specified under the Company's interested person transaction policy.

All directors are also updated regularly concerning any changes updates on the latest governance and listing policies.

Newly appointed Directors will be given briefings by Management on the business activities of the Group, governance policies, policies on disclosure of interests in securities, the rules relating to disclosure of any conflict of interest in a transaction involving the Company, prohibitions in dealing in the Company's securities and restrictions on disclosure of price sensitive information.

BOARD COMPOSITION AND GUIDANCE
Principle 2: Strong and independent element on the Board

The Board comprises two executive directors, one non-executive non-independent director, one alternate non-executive non-independent director and three independent non-executive directors.

The list of Directors is as follows:-

Executive Directors:
Mr James Zhang (Executive Chairman)
Mr Cheung Fei Pang (Executive Vice-Chairman)

Non-Executive Directors:
Mr Low Check Kian
Ms Tan Sin Mui (Alternate director to Mr Low Check Kian)

Independent Non-Executive Directors:
Mr Ong Tiong Seng
Dr Chong Weng Chiew
Mr Lim Chin Tong

There is presently a strong and independent element on the Board. The Board considers that the present board size and number of committees facilitate effective decision-making and are appropriate for the nature and scope of the Company's operations.

Profiles of the directors are set out in "Board of Directors" section of the Annual Report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")
Principle 3: Clear division of responsibilities at the top of the Company

The Board is of the view that, given the scope and nature of the operations of the Group and the strong element of independence of the Board, it is not necessary to separate the functions of the Chairman and CEO. The Board is also of the opinion that it is in the best interests of the Group to maintain a single leadership structure. Mr James Zhang is currently the Executive Chairman and the CEO of the Company.

The Board is of the view that it is unlikely that the discharge of responsibilities as Executive Chairman and CEO by the same person will be compromised as all major financial decisions made were reviewed by the AC. His performance and remuneration package are governed by the recommendations of the RC with the approval of the Board.

The role of the Chairman includes ensuring that Board meetings are held when necessary and sets the Board meeting agenda in consultation with the Company Secretary and ensuring that Board members are provided with complete, adequate and timely information.

As CEO, Mr Zhang is responsible for the overall management, strategic direction, ensuring that its organizational objectives are achieved and the day-to-day operations of the Group.

CORPORATE GOVERNANCE STATEMENT

The Board believes that there are adequate safeguards in place against an uneven concentration of power and authority vested in any one individual. In promoting a high standard of governance where the role of CEO and Chairman are undertaken by the same individual, the Board has appointed Mr Ong Tiong Seng as the lead independent director of the Company.

BOARD MEMBERSHIP
Principle 4: *Formal and transparent process for appointment of new directors to the Board*

The Board, through the delegation of its authority to the NC, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skill to enable the Board to make effective decision makings.

The NC comprises 3 independent directors and 1 non-executive non-independent director:

Nominating Committee:

Dr Chong Weng Chiew	(Chairman)
Mr Ong Tiong Seng	(Member)
Mr Lim Chin Tong	(Member)
Mr Low Check Kian	(Member)

The primary function of the NC is to determine the criteria for identifying candidates and to review nominations for the appointment of Directors to the Board, to consider how the Board's performance may be evaluated and to propose objective performance criteria for the Board's approval. Its duties and functions are outlined as follows:

1. to make recommendations to the Board on all board appointments and re-nomination having regard to the Director's contribution and performance.
2. to ensure that all Directors would be required to submit themselves for re-nomination and re-election at regular intervals and at least once in every three years;
3. to determine annually whether a Director is independent, in accordance with the independence guidelines contained in the Code;
4. to review whether a Director is able to and has adequately carried out his duties as a Director of the Company in particular where the Director concerned has multiple board representations; and
5. to consider how the Board's performance may be evaluated and to propose objective performance criteria.

The NC conducts an annual review of directors' independence and based on the definition of independence set out in the Code, the NC is of the view that Dr Chong Weng Chiew, Mr Ong Tiong Seng and Mr Lim Chin Tong are considered independent.

The NC has recommended the nomination of Dr Chong Weng Chiew, Mr Ong Tiong Seng and Mr Lim Chin Tong, the Directors retiring under the Company's Bye-laws.

Dr Chong Weng Chiew will, upon re-election as Director of the Company, remain as Chairman of the NC and member of the AC and RC. Mr Ong Tiong Seng will, upon re-election as Director of the Company, remain as Chairman of the AC and member of the NC and RC. Mr Lim Chin Tong will, upon re-election as Director of the Company, remain as Chairman of the RC and member of the AC and NC.

In reviewing the nomination of the retiring directors, the NC considered the performance and contribution of each of the retiring directors, having regards not only to their attendance and participation at Board and Board Committee meetings but also the time and efforts devoted to the Group's business and affairs.

BOARD PERFORMANCE
Principle 5: Formal assessment of the effectiveness of the Board and contributions by each Director.

While the Code recommends that the NC be responsible for assessing the Board as a whole and also assessing the individual evaluation of each directors' contribution, NC is of the view that it is more appropriate and effective to assess the Board as a whole, bearing in mind that each member of the Board contributes in different way to the success of the Company.

The NC has conducted a Board performance evaluation to assess the effectiveness of the Board in FY2006 and is satisfied that sufficient time and attention has been given by the Directors to the affairs of the Group.

The NC focuses on a set of performance criteria which includes the evaluation of the size and composition of the Board, the Board's access to information, Board processes and accountability, Board performance in relation to discharging its principal responsibilities and the directors' standards of conduct in assessing the Board's performance as a whole.

The Board has taken the view that the financial indicators, may not be appropriate as these are more of a measurement of Management's performance and therefore less applicable to directors.

ACCESS TO INFORMATION
Principle 6 : Board members to have complete, adequate and timely information

The Board has separate and independent access to senior management of the Company, the Company Secretaries and the external auditors at all times. The Directors also have unrestricted access to the Company's records and information, all Board and Board's committees' minutes, and shall receive management accounts so as to enable them to carry out their duties.

The Company Secretary attends all Board and Board Committee meetings. The Company Secretary administers, attends and prepares minutes of Board and Board Committee meetings, and assists the Chairman in ensuring that Board procedures are followed and reviewed in accordance with the Company's Bye-laws so that the Board functions effectively and the relevant rules and regulations applicable to the Company are complied with. The Company Secretary's role is to advise the Board on all governance matters, ensuring that legal and regulatory requirements as well as board policies and procedures are complied with.

The Directors either individually or as a group may seek independent professional advice in furtherance of the duties. The costs of such service shall be borne by the Company.

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES
Principle 7 : Formal and transparent procedure for fixing remuneration packages of Directors and key management executives

The RC comprises entirely non-executive directors, the majority of whom, including the Chairman, are independent. The RC members are:

Remuneration Committee

Mr Lim Chin Tong	(Independent Director)
Mr Ong Tiong Seng	(Independent Director)
Dr Chong Weng Chiew	(Independent Director)
Mr Low Check Kian	(Non-executive non-independent Director)

The RC is chaired by Mr Lim Chin Tong.

The RC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration, and for fixing the remuneration packages of individual directors and senior management. The RC's review will cover all aspects of remuneration including but not limited to Directors' fees, salaries, allowances, bonus, share options and benefits in kind and specific remuneration package for each Director. In structuring a compensation framework for executive Directors and key executives, the RC seeks to link a proportion of executive compensation to the Group's performance. The RC's recommendation are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board. No Director is involved in deciding his own remuneration.

The RC will have access to expert advice inside and/or outside the Company with regard to remuneration matters.

LEVEL AND MIX OF REMUNERATION
Principle 8 : The level of remuneration for Directors should be adequate, not excessive, and linked to performance.

The remuneration policy of the Company is to provide compensation packages at market rates, which rewards successful performance and attract, retain and motivate Directors and senior management.

The executive directors do not receive directors' fees. The executive directors' and key senior management remuneration packages are based on service contracts and their remuneration is determined by having regard to the performance of the individuals and industry benchmark.

Non-executive and independent directors are paid Directors' fees of an agreed amount based on their contributions, taking into account factors such as effort and time spent, responsibilities of the Directors. Directors' fees are recommended by the Board for approval at the Company's Annual General Meeting.

DISCLOSURE ON REMUNERATION
Principle 9 : Clear disclosure of remuneration policy, level and mix of remuneration, and the procedure for setting the remuneration

An appropriate and attractive level of remuneration has been set to attract, retain and motivate Directors and staff. The remuneration package for the executive directors and staff are made up of both fixed and variable components. The variable component is determined based on the performance of the individual employee as well as the Group's performance. All non-executive directors are paid directors' fees that are subject to shareholders' approval at the Annual General Meetings.

a) No. of Directors in remuneration bands

	2006
Below S$250,000	6
S$250,000 to S$499,999	1
S$500,000 and above	1
Total:	8

b) A breakdown, showing the level and mix of each individual director's remuneration and fees for Fibrechem in FY2006 is as follow:-

Remuneration Bands & Name	**Salary**	**Bonus**	**Benefits**	**Directors' Fees**	**Total**
	%	%	%	%	%
<u>Below S$250,000</u>					
Non-Executive Director:					
Low Check Kian	-	-	-	100	100
Tan Sin Mui	-	-	-	-	-
(Alternate director to Low Check Kian)					
Independent Non-Executive Directors:					
Ong Tiong Seng	-	-	-	100	100
Dr Chong Weng Chiew	-	-	-	100	100
Lim Chin Tong	-	-	-	100	100
Lam Yick Lam #	-	-	-	100	100
<u>S$250,000 to S$499,999</u>					
Executive Director:					
Cheung Fei Pang	28	72	-	-	100
<u>S$500,000 and above</u>					
Executive Director:					
James Zhang	16	84	-	-	100

Mr Lam Yick Lam had retired as a Director with effect from 28 April 2006.

c) No. of key executives in remuneration bands

	2006
Below S$250,000	4
S$250,000 to S$499,999	-
S$500,000 and above	-
Total:	4

d) A breakdown, showing the level and mix of each key executive's remuneration for FY2006, is as follow:-

Remuneration Bands & Name	Salary	Bonus	Benefits	Total
	%	%	%	%
Below S$250,000				
Zheng Peirong	90	7	3	100
Xu Xuhui	100	-	-	100
Lee Kam Wan	100	-	-	100
Christopher Tan	100	-	-	100

The Board is of the opinion that details of remuneration for individual Directors and key executives are confidential, and disclosure of such information would not be in the interest of the Company.

Immediate Family members of Directors

There are no immediate family members of Directors in employment with the Group and whose remuneration exceeds S$150,000 during FY2006.

ACCOUNTABILITY
Principle 10: Board should present a balanced and understandable assessment of the Company's performance, position and prospects

The Board is accountable to shareholders for the management of the Group. The Board updates shareholders on the operations and financial position of Company through its quarterly, half yearly and full year results announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations. The Management is accountable to the Board by providing the Board with the necessary financial information for the discharge of its duties.

AUDIT COMMITTEE
Principle 11: Establishment of Audit Committee with written terms of reference

The AC comprises entirely of all independent non-executive directors:-

Audit Committee
Mr Ong Tiong Seng (Chairman and Independent Director)
Dr Chong Weng Chiew (Independent Director)
Mr Lim Chin Tong (Independent Director)

The AC assists the Board to maintain a high standard of Corporate Governance, particularly by providing an independent review of the effectiveness of the financial reporting, management of financial and control risks, and monitoring of the internal control systems.

The members of AC, collectively, are appropriately qualified to discharge the AC's responsibilities.

CORPORATE GOVERNANCE STATEMENT

The functions of the AC are as follows:

1. assists our Board in discharging its statutory responsibilities on financial and accounting matters;
2. reviews the financial and operating results and accounting policies of the Group;
3. reviews significant financial reporting issues and judgements relating to financial statements for each financial year, interim and annual results announcement before submission to the Board for approval;
4. reviews the adequacy of the Company's internal control (financial and operational) and risk management policies and systems established by the management;
5. reviews the audit plans and reports of the external and internal auditors and consider the effectiveness of the actions taken by management on the auditors' recommendations;
6. appraises and report to our Board on the audits undertaken by the external and internal auditors, the adequacy of the disclosure of information, and the appropriateness and quality of the system of management and internal controls;
7. reviews the independence of external auditors annually and consider the appointment or re-appointment of external auditors and matters relating to the resignation or removal of the auditors and approve the remuneration and terms of engagement of the external auditors;
8. reviews interested person transactions, as defined in the Listing Manual of the SGX-ST; and
9. reviews the remuneration of employees who are related to our Directors or substantial shareholders.

The AC has explicit authority to investigate any matter within its terms of reference. The AC has full access to and co-operation of the management and external auditors, Deloitte & Touche. It also has the discretion to invite any Director and key executive to attend its meetings. The AC meets with the external auditors without the presence of the management at least once a year. The AC has adequate resources to enable it to discharge its responsibilities properly.

The AC has reviewed the non-audit services performed by Deloitte & Touche and noted that the level of such activities are not significant compared to the level of audit services carried out that may impair the auditors' independence.

The AC has recommended to the Board of Directors that Deloitte & Touche be nominated for reappointment as auditors at the forthcoming Annual General Meeting of the Company.

The Company has put in place a whistle-blowing framework, endorsed by the AC where employees of the Company may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters and to ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions.

INTERNAL CONTROLS
Principle 12:The Board to ensure that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.
AC to review the adequacy of financial, operational and compliance controls and risk management policies.

The AC is fully aware of the need to put in place a system of internal controls within the Group to safeguard the shareholders' interests and the Group's assets, and to manage risks. The system is intended to provide reasonable but not absolute assurance against material misstatements or loss, and to safeguard assets and ensure maintenance of proper accounting records, reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as taking appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board.

Management alone does not guarantee that business undertakings will not fail. However, by identifying and managing risks that may arise, the Group can make more informed decisions and benefit from a better balance between risk and reward. This will help protect and also create shareholders' value.

Based on the information provided to the AC, nothing has come to the AC's attention to cause the AC to believe that the system of internal controls and risk management is inadequate.

INTERNAL AUDIT
Principle 13: Setting up independent internal audit function

The Company currently does not have a separate internal audit ("IA") function. Deloitte & Touche was engaged to perform the quarterly review of the results of the Company as directed by the AC of the Company.

The size of the operations of the Group also does not warrant the Group having any in-house internal audit function. The Group has appointed a professional firm to undertake the functions of an internal auditor.

COMMUNICATION WITH SHAREHOLDERS
Principle 14: Regular , effective and fair communication with shareholders
Principle 15: Shareholders' participation at AGM

The Company recognizes the importance of providing the Board with a continual flow of relevant information on an accurate and timely basis so that it can discharge its duties effectively. The Company also believes in timely, fair and adequate disclosure of relevant information to shareholders and investors so that they will be apprised of developments that may have a material impact on the Company's securities. It does not practice selective disclosure. All information of the Company is published through the SGXNET. The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure fair disclosure.

All shareholders of the Company receive the annual report and notice of Annual General Meeting (AGM). At general meetings of shareholders, shareholders are given the opportunity to voice their views and ask Directors or management questions regarding the Company's affairs. The Chairmen of the Audit, Remuneration and Nominating Committees will normally be present at AGM to answer any questions relating to the work of these Committees. The external auditors are also present at the AGM to assist the Directors in answering questions from shareholders.

DEALING IN SECURITIES

The Company has adopted its own internal compliance code pursuant to the SGX-ST's best practices on dealings in securities and these are applicable to all its officers in relation to their dealings in the Company's securities. Its officers are advised not to deal in the Company's shares during the period commencing two weeks and one month before the announcement of the Company's interim and full year results respectively or if they are in possession of unpublished price-sensitive information of the Company. In addition, directors and officers are expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period. The Group has complied with the Best Practices Guide on Securities Transactions issued by the SGX-ST.

MATERIAL CONTRACTS

There are no material contracts of the Company or its subsidiaries involving the interests of the Managing Director, each Director or Controlling shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

INTERESTED PARTY TRANSACTION

The Group has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are at arm's length basis. All interested person transactions are subject to review by the AC to ensure compliance with the established procedures.

REPORT OF THE DIRECTORS

The directors present their report together with the audited consolidated financial statements of the Group and balance sheet and statement of changes in equity of the Company and for the financial year ended December 31, 2006.

1 DIRECTORS

The directors of the Company in office at the date of this report are:

James Zhang
Cheung Fei Pang
Dr Chong Weng Chiew
Ong Tiong Seng
Lim Chin Tong
Low Check Kian
Tan Sin Mui (Alternate to Low Check Kian)
Lam Yick Lam (Resigned on April 28, 2006)

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate except for the share options mentioned in paragraph 7 of this report.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company except as follows:

Name of directors and company	**At beginning of year**	**At end of year**
in which interests are held		
FibreChem Technologies Limited	**Ordinary shares of HK$0.01 each**	
Tan Sin Mui	800,000	800,000
Name of directors and company	**At beginning of year**	**At end of year**
in which deemed interests are held		
FibreChem Technologies Limited	**Ordinary shares of HK$0.01 each**	
James Zhang	138,331,140	138,331,140
Cheung Fei Pang	5,290,159	5,290,159

There was no change in any of the above-mentioned interests between the end of the financial year and January 21, 2007.

4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit, by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for salaries, bonuses and other benefits as disclosed in the financial statements. Certain directors received remuneration from related corporations in their capacity as directors and/or executives of those related corporations.

5 OPTION EXERCISED

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

6 UNISSUED SHARES UNDER OPTION

At the end of the financial year, there were no unissued shares of the Company or any subsidiary corporation in the Group under option except for the unconverted redeemable non-cumulative convertible preference shares as disclosed in Note 17 to the financial statements.

7 SHARE OPTIONS

(a) FibreChem Employee Share Option Scheme (the "Scheme") was approved by the shareholders of the Company on October 12, 2003.

(b) The committee administering the Scheme comprises:

Lim Chin Tong	(Chairman)
Dr Chong Weng Chiew	
Ong Tiong Seng	
Low Check Kian	(Appointed on February 26, 2007)
James Zhang	(Resigned on February 26, 2007)
Lam Yick Lam	(Resigned on April 28, 2006)

Under the Scheme, an option entitles the option holder to subscribe for a specific number of new ordinary shares of HK$0.01 each in the Company comprised in the option at a subscription price per share determined with reference to the market price of the shares at the time of grant of the option. The Share Option Committee may at its discretion, fix that subscription price at a discount up to 20% off market price but not lower than the par value of the shares. The consideration for the grant of an option is S$1.00. Options granted with the subscription price set at the market price shall only be exercised after the first anniversary but before the tenth anniversary (fifth anniversary for non-executive directors) of the date of grant of that option. Options granted with the market price set at a discount to the market price shall only be exercised after the second anniversary but before the tenth anniversary (fifth anniversary for non-executive directors) of the date of grant of that option. The shares under option may be exercised in whole or in part on the payment of the relevant subscription price. Options granted will lapse when the option holder ceases to be a full-time employee of the Company or any company of the Group subject to certain exceptions at the discretion of the Company.

There have been no options granted pursuant to the Scheme since its adoption on October 12, 2003.

8 AUDIT COMMITTEE

The Audit Committee of the Company comprises 3 independent directors and is chaired by Ong Tiong Seng, and includes Dr Chong Weng Chiew and Lim Chin Tong as members.

The Audit Committee has held four meetings since the last Annual General Meeting ("AGM") and has reviewed the following, where relevant, with the executive directors and the external auditors of the Company:

(a) the audit plans and results of the internal auditors' examinations and evaluation of the Group's systems of internal accounting control;

(b) the Group's financial and operating results and accounting policies;

(c) the financial statements of the Company and the consolidated financial statements of the Group before their submission to the directors of the Company and the external auditors' report on those financial statements;

8 AUDIT COMMITTEE (Cont'd)

(d) the quarterly, half-yearly and annual announcements as well as the related press releases on the results and financial position of the Company and the Group;

(e) material internal controls, including operational and compliance controls and risk management via reviews carried out by the internal auditors;

(f) the co-operation and assistance given by the management to the Group's external and internal auditors;

(g) the re-appointment of the external auditors of the Company;

(h) interested person transactions; and

(i) all non-audit services provided by the Group's external auditors.

The Audit Committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its functions properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the directors the nomination of Deloitte & Touche for the re-appointment as external auditors of the Company at the forthcoming annual general meeting.

9 AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

James Zhang

Cheung Fei Pang

February 28, 2007

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF FIBRECHEM TECHNOLOGIES LIMITED

We have audited the accompanying financial statements of Fibrechem Technologies Limited ("Company") and its subsidiaries ("Group) which comprise the balance sheets of the Group and the Company as at December 31, 2006, the profit and loss statement, statement of changes in equity and cash flow statement of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 26 to 50.

Directors' Responsibility

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 fair presentation of the 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 directors, as well as evaluating the overall presentation of the financial statements. 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 of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2006 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

Deloitte & Touche
Certified Public Accountants
Singapore

Cheung Pui Yuen
Partner
Appointed on September 13, 2003

February 28, 2007

BALANCE SHEETS

December 31, 2006

	Note	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
ASSETS					
Current assets:					
Cash and bank balances	7	244,471	28,011	1,921	-
Bank deposit	7	7,815	6,000	-	-
Trade receivables	8	247,562	94,829	-	-
Other receivables and prepayments	9	15,231	300	97	178
Inventories	10	54,976	17,855	-	-
Lease premium for land - current portion	11	1,046	856	-	-
Amounts due from subsidiaries	12	-	-	733,774	302,205
Total current assets		571,101	147,851	735,792	302,383
Non-current assets:					
Investments in subsidiaries	12	-	-	329,625	329,625
Property, plant and equipment	13	953,309	786,109	-	-
Lease premium for land - non-current portion	11	71,143	39,877	-	-
Deposits paid for acquisition of property, plant and equipment	14	140,683	-	-	-
Deposit paid for acquisition of lease premium for land	15	48,000	29,807	-	-
Total non-current assets		1,213,135	855,793	329,625	329,625
Total assets		1,784,236	1,003,644	1,065,417	632,008
LIABILITIES AND EQUITY					
Current liabilities:					
Bank loans	16	77,855	19,375	77,855	19,375
Trade payables	8	101,398	54,123	-	-
Accrued charges	8	28,256	16,312	6,913	2,985
Amount due to a subsidiary	12	-	-	17,980	1,680
Income tax payable		17,272	10,190	-	-
Redeemable non-cumulative convertible preference shares	17	112,228	-	112,228	-
Total current liabilities		337,009	100,000	214,976	24,040
Non-current liabilities:					
Bank loans	16	310,800	-	310,800	-
Redeemable non-cumulative convertible preference shares	17	-	105,396	-	105,396
Total non-current liabilities		310,800	105,396	310,800	105,396
Capital and reserves:					
Issued capital	18	3,976	3,976	3,976	3,976
Reserves		1,132,451	794,272	535,665	498,596
Total equity		1,136,427	798,248	539,641	502,572
Total liabilities and equity		1,784,236	1,003,644	1,065,417	632,008

See accompanying notes to financial statements.

CONSOLIDATED INCOME STATEMENT
Financial year ended December 31, 2006

	Note	Group 2006 HK$'000	Group 2005 HK$'000
Revenue	19	1,263,259	829,986
Cost of sales		(786,950)	(542,390)
Gross profit		476,309	287,596
Other income		2,184	774
Selling and distribution expenses		(32,656)	(22,130)
Administrative expenses		(41,081)	(18,121)
Other expenses	21	(22)	(19,324)
Interest income	22	959	1,339
Finance costs	23	(21,838)	(6,626)
Profit before income tax		383,855	223,508
Income tax expense	24	(51,833)	(26,618)
Profit for the year	25	332,022	196,890
Earnings per share (HK cents):			
Basic	28	83.5	49.5
Diluted	28	75.2	45.1

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

Financial year ended December 31, 2006

	Note	Issued capital HK$'000	Share premium HK$'000	Redeemable non-cumulative convertible preference shares reserve HK$'000	Merger reserve HK$'000	Currency translation reserve HK$'000	Legal reserve HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Total HK$'000
Group										
Balance at January 1, 2005		3,976	117,186	-	(3,076)	(561)	35,640	-	436,620	589,785
Profit for the financial year		-	-	-	-	-	-	-	196,890	196,890
Recognition of equity component of redeemable non-cumulative convertible preference shares		-	-	14,503	-	-	-	-	-	14,503
Translation gain		-	-	-	-	18,656	-	-	-	18,656
Dividend paid		-	-	-	-	-	-	-	(21,586)	(21,586)
Appropriated from accumulated profits		-	-	-	-	-	20,225	-	(20,225)	-
Balance at December 31, 2005		3,976	117,186	14,503	(3,076)	18,095	55,865	-	591,699	798,248
Profit for the financial year		-	-	-	-	-	-	-	332,022	332,022
Translation gain		-	-	-	-	48,727	-	-	-	48,727
Dividend paid	27	-	-	-	-	-	-	-	(42,570)	(42,570)
Appropriated from accumulated profits		-	-	-	-	-	37,958	-	(37,958)	-
Balance at December 31, 2006		3,976	117,186	14,503	(3,076)	66,822	93,823	-	843,193	1,136,427
Company										
Balance at January 1, 2005		3,976	117,186	-	-	-	-	326,449	16,888	464,499
Recognition of equity component of redeemable non-cumulative convertible preference shares		-	-	14,503	-	-	-	-	-	14,503
Profit for the financial year		-	-	-	-	-	-	-	45,156	45,156
Dividend paid		-	-	-	-	-	-	-	(21,586)	(21,586)
Balance at December 31, 2005		3,976	117,186	14,503	-	-	-	326,449	40,458	502,572
Profit for the financial year		-	-	-	-	-	-	-	79,639	79,639
Dividend paid	27	-	-	-	-	-	-	-	(42,570)	(42,570)
Balance at December 31, 2006		3,976	117,186	14,503	-	-	-	326,449	77,527	539,641

See accompanying notes to financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Financial year ended December 31, 2006

	Note	Group 2006 HK$'000	Group 2005 HK$'000
Cash flows from operating activities:			
Profit before income tax		383,855	223,508
Adjustments for:			
Amortisation of lease premium for land		1,026	856
Interest on bank loans		9,525	9
Finance cost in respect of liability component of RCPS		12,313	6,617
Depreciation		37,027	19,748
Loss on disposal of property, plant and equipment		22	16,430
Interest income		(959)	(1,339)
Operating profit before working capital changes		442,809	265,829
Trade receivables		(152,733)	(39,801)
Other receivables and prepayments		(14,931)	1,124
Inventories		(37,121)	(5,311)
Trade payables		47,275	29,646
Accrued charges		3,324	4,896
Cash generated from operations		288,623	256,383
Dividend paid		(48,051)	(22,372)
Interest received		959	1,339
Interest paid		(6,852)	(9)
Income tax paid		(44,751)	(27,017)
Net cash from operating activities		189,928	208,324
Cash flows used in investing activities:			
Purchase of property, plant and equipment		(168,421)	(452,495)
Deposits paid for acquisition of property, plant and equipment		(140,683)	-
Deposit paid for acquisition of lease premium for land		(48,000)	(10,181)
(Increase) decrease in bank deposit		(1,815)	46,150
Purchase of lease premium for land		-	(543)
Proceeds on disposals on property, plant and equipment		820	12,407
Net cash used in investing activities		(358,099)	(404,662)
Cash flows from financing activities:			
Net proceeds from issue of RCPS		-	114,068
New bank loans raised		369,280	19,375
Net cash from financing activities		369,280	133,443
Net effect of exchange rate changes on consolidating subsidiaries		15,351	6,888
Net increase (decrease) in cash and cash equivalents		216,460	(56,007)
Cash and cash equivalents at beginning of financial year		28,011	84,018
Cash and cash equivalents at end of financial year	7	244,471	28,011

See accompanying notes to financial statements.

1 GENERAL

The Company was incorporated in Bermuda on September 12, 2003 under Bermuda Companies Act 1981 as an exempt company with limited liability. The registered address of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company is listed on the Singapore Exchange Securities Trading Limited.

The consolidated financial statements are expressed in Hong Kong dollars. The functional currency of the Company is Singapore dollars as majority of the Company's transactions are denominated in Singapore dollars.

The principal activities of its subsidiaries are disclosed in Note 12 to the financial statements.

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company for the financial year ended December 31, 2006 were authorised for issue by the Board of Directors on 28 February 2007.

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised International Financial Reporting Standards and Interpretations ("IFRSs") does not result in changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2 (Share-based Payment)
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangement
Amendment to IAS 1	Presentation of Financial Statements on Capital Disclosures
Amendment to IAS 32	Financial Instruments: Disclosure and Presentation

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company and the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below, and are drawn up in accordance with IFRS.

BASIS OF CONSOLIDATION - The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

The Group was formed as a result of a restructuring exercise (the "Restructuring Exercise") undertaken in 2003 and is regarded as a continuing group and accordingly, the Restructuring Exercise has been accounted for by the use of merger method, as if the Company had always been in the holding company of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd)

Control is achieved where the Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date 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 the accounting policies used in line with those used by other members of the Group.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in the income statement.

FINANCIAL INSTRUMENTS - Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Trade receivables and other receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period. Income is recognised on an effective interest basis.

Cash and bank balances

Cash and bank balances comprise cash at bank, cash on hand and bank deposits and are subject to an insignificant risk of changes in value.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd)

Financial liabilities

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy of borrowing costs.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Redeemable non-cumulative convertible preference shares ("RCPS")

RCPS are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the RCPS and the fair value assigned to the liability component, representing the embedded option for the holder to convert the RCPS into equity component of the Group, is included in equity (redeemable non-cumulative preference shares equity reserves) and is not subsequently remeasured. The liability component is subsequently measured on an amortised cost basis until extinguished upon conversion or at the instruments' maturity date.

Issue costs are apportioned between the liability and equity components of the RCPS based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

LEASES - Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals assign under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

INVENTORIES - Inventories are measured at the lower of cost (first-in first-out method) and net realisable value. Cost comprises direct materials and direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are carried at cost, less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production or administrative purposes, or for purposes not yet determined are carried at cost, less any recognised impairment loss. Depreciation of these assets on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, on the following bases:

Buildings	-	20 years or the term of land use rights, if shorter
Plant and machinery	-	5 - 20 years
Furniture and equipment	-	5 years
Motor vehicles	-	5 years

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd)

The estimated useful lives', residual values and depreciation method are reviewed at each year end with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the income statement.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

LEASE PREMIUM FOR LAND - Lease premium for land are up-front payments to acquire long term leasehold land interests. The premiums are stated at cost and are charged to income statement over the period of the lease on a straight-line basis.

RESEARCH EXPENDITURE - Expenditure on research activities is recognised as an expense in the period in which it is incurred.

IMPAIRMENT OF ASSETS - At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

PROVISIONS - Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

REVENUE RECOGNITION - Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income 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.

BORROWING COSTS - Borrowing costs are recognised in the income statement in the period in which they are incurred.

RETIREMENT BENEFIT COSTS - Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to share-managed retirement benefit schemes such as PRC state-managed retirement schemes, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

INCOME TAX - 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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (tax laws) that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the 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 profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION - The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the balance sheet of the Company are presented in Hong Kong dollars, which is the presentation currency for the consolidated financial statements.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd)**

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 retranslation of monetary items are included in income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in income statement in the period in which the foreign operation is disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities) are taken to the foreign currency translation reserve.

MERGER RESERVE - Merger reserve represents the difference between the nominal amount of the share capital of the subsidiary at the date on which it was acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.

LEGAL RESERVE - Legal reserve represents the amount transferred from profit after taxation of the subsidiaries incorporated in the People's Republic of China (excluding Hong Kong) (the "PRC") in accordance with the PRC requirement. The legal reserve cannot be reduced except where approval is obtained from the relevant PRC authority to apply the amount either in setting off the accumulated losses or increasing capital.

CONTRIBUTED SURPLUS - Contributed surplus represents the difference between the nominal amount of the consolidated net assets of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.

4 **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group's accounting policies, management makes various estimates and judgements based on past experience, expectations of the future and other information. The key sources affect the amounts recognised in the financial information as disclosed below. Actual results may differ from these estimates.

(i) Critical judgements in applying the entity's accounting policies

<u>Allowance for trade and other receivables</u>
The provision policy for doubtful debts of the Group is based on the ongoing evaluation of collectability and aging analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

<u>Allowance for inventories</u>
Management exercises their judgement in making allowance for inventories. An allowance for inventories is made if inventories are obsolete.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - (cont'd)

(i) Critical judgements in applying the entity's accounting policies - (cont'd)

Depreciation

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal , if the assets were already of the age and in the condition expected at the end of its useful life.

(ii) Key sources of estimation and uncertainty

The management is of the opinion that there are no key assumptions concerning the future and other key sources of estimation at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

5 FINANCIAL RISKS AND MANAGEMENT

(i) Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk.

The Group's current credit practices include the assessment and valuation of customer's credit reliability and periodic review of their financial status to determine the credit limits to be granted.

The credit risk on liquid funds is limited because the counterparties are banks which are reputable in the opinion of the directors.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet of the Group and the balance sheet of the Company.

(ii) Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's policy does not permit non-secured credit risk to be significantly centralised in one customer or group of customers.

(iii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing liabilities and assets. Interest-bearing financial liabilities are mainly bank borrowings and interest-bearing financial assets are mainly cash and cash equivalents and bank deposits. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

(iv) Foreign currency risk

Purchases and sales of the Group are denominated in Chinese Renminbi ("Renminbi") and bank borrowings of the Group are denominated in United States Dollars, 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.

5 FINANCIAL RISKS AND MANAGEMENT - (cont'd)

(v) Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

(vi) Fair value of financial assets and financial liabilities

The fair values of financial assets and financial liabilities reported in the consolidated balance sheet approximate their carrying amounts.

6 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Some of the Company's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties is reflected in these financial statements.

(a) Significant transactions with a related party

Public relation services

During the financial year ended December 31, 2006, the Group engaged Cogent Communications Pte. Ltd, in which an independent director has a direct shareholding interest of 40%, to provide public relations services for the Group with an aggregate amounts of approximately HK$480,000 (2005: HK$395,000). The service fee paid is determined at prevailing market rate.

(b) Key management's remuneration

The remuneration of directors and other members of key management during the year is as follows:

	Group	
	2006	**2005**
	HK$'000	**HK$'000**
Short-term benefits	10,498	3,975
Post-employment benefits	46	6
	10,544	3,981

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

No share options were granted to the directors of the Company and the other key management of the Group during the financial year ended December 31, 2005 and 2006.

7 CASH AND BANK BALANCES

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Cash at bank	244,167	27,729	1,921	-
Cash on hand	304	282	-	-
Cash and cash equivalents	244,471	28,011	1,921	-
Bank deposit	7,815	6,000	-	-
	252,286	34,011	1,921	-

Cash and bank balances comprise cash at bank and cash on hand with an original maturity of three months or less and bank deposit which bear interest at an average rate of 4.96% (2005: 1.88%) per annum and for a tenure of approximately 1 year (2005: 1 year). In the opinion of the directors, the carrying amounts of these assets approximate their fair values.

The Group and the Company's cash and bank balances that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong dollars	143,288	16,235	-	-
United States dollars	40,404	-	1,412	-

8 TRADE RECEIVABLES/TRADE PAYABLES/ACCRUED CHARGES

The directors consider that the carrying amounts of trade receivables, trade payables and accrued charges approximate their fair values due to their short-term nature. The Group and the Company's trade receivables, trade payables and accrued charges are denominated in the functional currencies of the respective entities.

9 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Other receivables	4,433	68	97	-
Prepayments	10,698	178	-	167
Deposits	100	54	-	11
	15,231	300	97	178

The directors consider that the carrying amounts of other receivables approximate their fair values.

The other receivables are denominated in the functional currencies of the respective entities.

10 INVENTORIES

	Group 2006	Group 2005
	HK$'000	HK$'000
At cost:		
Raw materials	42,516	8,389
Work-in-progress	4,863	1,089
Finished goods	7,597	8,377
	54,976	17,855

11 LEASE PREMIUM FOR LAND

	Total
	HK$'000
Cost:	
At January 1, 2005	41,161
Addition	543
Exchange differences	1,188
At January 1, 2006	42,892
Transfer from deposit paid for acquisition of lease premium for land	30,873
Exchange differences	1,715
At December 31, 2006	75,480
Amortisation:	
At January 1, 2005	1,262
Charge for the year	856
Exchange differences	41
At January 1, 2006	2,159
Charge for the year	1,026
Exchange differences	106
At December 31, 2006	3,291
Carrying amount:	
At December 31, 2006	72,189
At December 31, 2005	40,733

	2006	2005
	HK$'000	HK$'000
Presented in the balance sheet as:		
Current assets	1,046	856
Non-current assets	71,143	39,877
Total	72,189	40,733

As at December 31, 2006, the application of land use right certificate in respect of a piece of land, on which certain of the factories and production lines of the Group are under construction, with an aggregate carrying amount of RMB30,719,000 (2005: RMB37,660,000) (equivalent to approximately HK$30,719,000 (2005: HK$36,212,000) is in progress and has not yet been approved by the land authorities. The directors expect to obtain the land use right certificate in 2007.

The lease premium for land is amortised over approximately fifty years.

12 INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unquoted equity shares, at cost (Note i)	329,625	329,625
Amounts due from subsidiaries (Note ii)	733,774	302,205
Amount due to a subsidiary (Note ii)	(17,980)	(1,680)

Notes:

i. Details of the Company's subsidiaries at December 31, 2006 are as follows:

Name of subsidiaries	Principal activities	Country of incorporation/ registration and operation	Cost of investment by the Company	Effective percentage of equity held by the Group	
			2006 and 2005	2006	2005
			HK$'000	%	%
Held by the Company					
Privy Management Limited ("Privy")	Investment holding	British Virgin Islands	329,625	100	100
Held by Privy					
AG Enterprises Corp.	Inactive	British Virgin Islands		100	100
Golden Frontier Development Limited	Inactive	British Virgin Islands		100	100
Honglin International Company Limited ("Honglin")	Investment holding	Hong Kong		100	100
Held by Honglin					
Quanzhou Honglin Chemical Fibre Co., Ltd. ("Quanzhou Honglin")	Manufacture and the distribution of a variety of chemical fibre products	PRC		100	100
Xiamen Hongxin Specialized Fibre Co., Ltd. ("Xiamen Specialized") (Note a)	Production of differential chemical fibre products and sea-island bi-component short fibre	PRC		100	100
Xiamen Hongxin Microfibre Materials Co., Ltd. ("Xiamen Microfibre") (Note b)	Production of non-woven fabric and microfibre leather	PRC		100	100

12 INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES - (cont'd)

All subsidiaries are audited by Deloitte Touche Tohmatsu, Hong Kong for consolidation purposes.

Notes:

(a) The authorised share capital of Xiamen Specialized is HK$228,000,000 and Honglin fully paid and injected HK$120,850,120 (2005: HK$47,149,880) during the financial year ended December 31, 2006.

(b) The authorised share capital of Xiamen Microfibre has increased from HK$148,000,000 to HK$305,000,000 and Honglin fully paid and injected HK$190,930,918 (2005: HK$114,069,082) during the financial year ended December 31, 2006.

ii The directors consider that the carrying amounts of amounts due from (to) subsidiaries approximate their fair values as they are unsecured, interest-free and repayable on demand. No guarantee has been received and no expense has been recognised during the year for bad or doubtful debts in respect of the amounts owed by subsidiaries.

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Group						
Cost:						
At January 1, 2005	36,149	369,934	395	2,095	43,213	451,786
Additions	769	28,191	70	135	423,330	452,495
Exchange differences	1,043	10,671	9	60	1,247	13,030
Disposals	-	(43,112)	-	-	-	(43,112)
At December 31, 2005	37,961	365,684	474	2,290	467,790	874,199
Additions	-	27,980	4,605	3,615	138,168	174,368
Transfers	99,193	406,580	2,016	-	(507,789)	-
Exchange differences	1,518	14,627	15	91	18,711	34,962
Disposals	-	-	-	(1,353)	-	(1,353)
At December 31, 2006	138,672	814,871	7,110	4,643	116,880	1,082,176
Accumulated depreciation:						
At January 1, 2005	8,606	70,674	256	672	-	80,208
Depreciation	1,771	17,661	35	281	-	19,748
Exchange differences	257	2,124	7	21	-	2,409
Eliminated on disposals	-	(14,275)	-	-	-	(14,275)
At December 31, 2005	10,634	76,184	298	974	-	88,090
Depreciation	5,271	30,801	507	448	-	37,027
Exchange differences	530	3,663	20	48	-	4,261
Eliminated on disposals	-	-	-	(511)	-	(511)
At December 31, 2006	16,435	110,648	825	959	-	128,867
Carrying amount:						
At December 31, 2006	122,237	704,223	6,285	3,684	116,880	953,309
At December 31, 2005	27,327	289,500	176	1,316	467,790	786,109

14 DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2006, the Group has paid approximately HK$140,683,000 (2005: HK$Nil) to certain vendors for the acquisition of property, plant and equipment. Details of the related capital expenditure commitments are disclosed in Note 30 to the financial statements.

15 DEPOSIT PAID FOR ACQUISITION OF LEASE PREMIUM FOR LAND

During the financial year ended December 31, 2006, the Group entered into a sales and purchase agreement with an independent third party for the acquisition of a piece of land for construction of a new plant for production of high-end non-woven fabric and synthetic leather, at a consideration of RMB48,000,000 (equivalent to approximately HK$48,000,000). As at December 31, 2006, the Group has fully paid the outstanding balance. The application of land use right certificate in respect of this piece of land is still in progress and has not yet been approved by the government authorities.

As at December 31, 2005, the Group had paid approximately RMB31,000,000 (equivalent to HK$29,807,000) for the acquisition of a piece of land for construction of a new plant. The application of land use right certificate in respect of this piece of land is still in progress and had not yet been approved by the government authorities. During the financial year ended December 31, 2006, the acquisition had been completed and the deposit had been transferred to the lease premium for land.

16 BANK LOANS

	Group and Company	
	2006	2005
	HK$'000	HK$'000
Bank loans	388,655	19,375
The loans of the Group and the Company are repayable as follows:		
On demand or within one year	77,855	19,375
In more than one year but not more than two years	-	-
In more than two years but not more than three years	111,000	-
In more than three years but not more than four years	66,600	-
In more than four years but not more than five years	133,200	-
More than five years	-	-
	388,655	19,375
Less: Amount due within one year shown under current liabilities	(77,855)	(19,375)
Amounts due after one year	310,800	-

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group and the Company's loans are 6.20% to 7.16% (2005 : 6.20%) per annum. The contractual repricing dates of the Group and the Company's loans do not exceed 6 months (2005 : 6 months).

During the year, the Group and the Company obtained three new loans in an amount of approximately HK$77,700,000, HK$233,100,000 and HK$58,480,000 respectively. The loans bear interest at prevailing market rates and will be repayable in 2009 and 2011 respectively. The proceeds were mainly used to finance capital expenditure.

The Group and the Company's loans are secured by a corporate guarantee by a subsidiary.

The Group and the Company's loans are mainly denominated in United States dollars.

The directors consider that the carrying amounts of bank loans approximate their fair values.

17 REDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES

(a) Authorised

The total authorised number of RCPS as at December 31, 2005 and 2006 is 60,000,000 shares with a par value of HK$0.01 per share.

(b) Issued and fully paid

The net proceeds received from the issue of RCPS have been split between a liability component and an equity component representing the fair value of the embedded option to convert the liability into equity of the Group, as follows:

	Group and Company
	HK$'000
Issue of 60,000,000 RCPS of HK$0.01 each	600
Share premium arising from the issue of RCPS	117,837
Proceeds from the issue of RCPS	118,437
Less: Issue costs	(4,369)
	114,068
Equity component at December 31, 2005 and 2006	(14,503)
Liability component at date of issue	99,565

The effective interest rate of the liability component is 6% (2005 : 6%) per annum. The movement of the liability component for the year is as follows:

	Group and Company	
	2006	2005
	HK$'000	HK$'000
Liability component at January 1	105,396	-
Issue of RCPS	-	99,565
Interest charge	6,832	5,831
Liability component at December 31	112,228	105,396

(c) The principal terms and conditions of the RCPS are summarized below:

Title	RCPS with a par value HK$0.01 each.
Issue Size	60,000,000 RCPS fully convertible into fully paid new ordinary shares of par value HK$0.01 each ("New Shares" or "Shares") at the initial conversion price of S$0.42
Par Value	HK$0.01 per RCPS
Issue Price	S$0.42 per RCPS
Dividend Rights	The RCPS will not carry a fixed rate of dividend, but will be entitled to dividends at the same rate as the ordinary shares as if the RCPS has been fully converted into New Shares at the relevant conversion price. In all other respects, the RCPS will rank in priority, to the holders of shares, and to any dividend or distribution in favour of holders of, any capitalisation issue in respect of or any buy-back of, any other classes of shares in the Company.
Conversion Rights	Holders may at any time and from time to time after July 31, 2005 convert all or any of their RCPS at the then prevailing conversion price.

17 REDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES - (cont'd)

(c) The principal terms and conditions of the RCPS are summarized below: - (cont'd)

Conversion Price	The conversion price of S$0.42 may be adjusted in accordance with the terms and conditions of the RCPS.
Redemption Rights	The RCPS, unless exercised, will be subject to mandatory redemption on the expiry of 28 months from their date at the redemption price of S$0.42 per RCPS, an amount equivalent to the original issue price of the RCPS. The RCPS will also carry optional redemption rights exercisable by the RCPS holders upon the occurrence of certain specific events.
Conversion Price/Adjustments to Conversion Price	The initial conversion price of S$0.42 may be adjusted in accordance with the terms and conditions of the RCPS, but may not be adjusted upwards or below the par value of the Shares. The Conversion Price may be adjusted, inter alia, in the event of any variation in the share capital structure of the Company, or if certain specified earnings targets for financial year ended 2004, 2005 and 2006 are not met. In the event of any adjustment to the initial conversion price of the RCPS, the Company will issue an announcement to Shareholders, which will contain information on the number of New Shares to be issued by the Company before and after the adjustment of the conversion price, the adjusted conversion price and the reason for the adjustment of the conversion price.
Ranking of New Shares	All New Ordinary Shares issued upon conversion of the RCPS shall be issued at the applicable Conversion Price, credited as fully paid-up and rank pari passu in all respects with the Ordinary Shares then in issue.
Voting rights and transferability	The RCPS will have no voting rights attached except in relation to a class meeting of RCPS holders, resolution to vary the rights and privileges attaching to the RCPS or to wind up the Company, or where any dividend payable on the RCPS is in or is deemed to be in arrear and remains unpaid for at least three months or as permitted by the Bermuda Companies Act. The RCPS will be transferable under specific circumstances which are stated in the Subscription Agreement.

(d) The share premium attributable to the holders of the RCPS cannot be utilized except for payment of premium on the redemption of the RCPS in May 2007 or for the issue of New Shares to the holders of the RCPS if they exercise their right to convert the RCPS into ordinary shares of the Company during the conversion period of the RCPS.

(e) The carrying amount of the liability component of the RCPS at December 31, 2006 approximates its fair value which has been calculated by discounting the future cash flows at the market rate prevailing as at balance sheet date.

17 REDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES - (cont'd)

(f) Dividends on equity component of the RCPS:

	2006	2005
	HK$'000	HK$'000
Interim tax exempt dividend paid - HK$0.020 per RCPS (2005: HK$0.015 per RCPS)	156	114
Final tax exempt dividend paid - HK$0.085 per RCPS (2005: HK$Nil)	663	-
	819	114

18 ISSUED CAPITAL

	Group and Company	
	Number of shares of HK$0.01 each	
	'000	HK$'000
Authorised:		
Ordinary shares	1,100,000	11,000
RCPS	100,000	1,000
	1,200,000	12,000
Issued and paid at:		
Balance at January 1, 2005, December 31, 2005 and 2006	397,624	3,976

There is no movement of issued share capital for the years.

In the prior year, the Company increased its authorised share capital to HK$12,000,000 divided into 1,100,000 ordinary shares of HK$0.01 each and 100,000 RCPS of HK$0.01 each having the rights and subject to the restriction set out in Bye-laws 9A to 9E of the Company by the creation of an additional 100,000,000 ordinary shares and 100,000,000 RCPS.

19 REVENUE

	Group	
	2006	2005
	HK$'000	HK$'000
Sales of goods	1,263,259	829,986

20 SEGMENT INFORMATION

The Group is principally engaged in the manufacture and distribution of chemical fibre products, non-woven fabric and synthetic leather in the PRC and all of its customers are based in the PRC. In addition, substantially all identifiable assets of the Group are principally located in the PRC. Accordingly, no segmental analysis is presented.

21 OTHER EXPENSES

	Group 2006 HK$'000	Group 2005 HK$'000
Loss on disposal of property, plant and equipment	22	16,430
Research costs	-	2,756
Others	-	138
	22	19,324

22 INTEREST INCOME

	Group 2006 HK$'000	Group 2005 HK$'000
Interest on bank deposits	959	1,339

23 FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on bank loans	9,525	9
Interest on liability component of RCPS	6,832	5,831
Dividend paid in respect of liability component of RCPS	5,481	786
	21,838	6,626

24 INCOME TAX EXPENSE

	Group 2006 HK$'000	Group 2005 HK$'000
Current	51,833	26,618

The provision for PRC taxation is calculated based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable to the financial year ended December 31, 2005 and 2006.

Pursuant to the relevant laws and regulations in the PRC, Quanzhou Honglin, Xiamen Specialized and Xiamen Microfibre, subsidiaries of the Company, are entitled to an exemption from the PRC enterprise income tax for two years commencing from its first profit-making year of operation and a 50% relief from the PRC enterprise income tax for the following three years ("tax concessions").

Quanzhou Honglin's first profit-making year is the year of 1999. Accordingly, the tax relief period of Quanzhou Honglin has expired in 2003. Quanzhou Honglin is subject to the standard income tax rate of 24% and the local tax rate of 3%. It is therefore subject to PRC taxation levied at a total rate of 27% on the estimated taxable income for the financial year ended December 31, 2005 and 2006.

Xiamen Specialized's first profit-making year is the year of 2005. Accordingly, no provision for PRC taxation has been made for Xiamen Specialized for the financial year ended December 31, 2005 and 2006.

24 INCOME TAX EXPENSE - (cont'd)

No provision for PRC taxation has been made for Xiamen Microfibre for the financial year ended December 31, 2005 since it was newly incorporated in the financial year 2004 and did not have any profits in 2004 and 2005. Xiamen Microfibre commences its commercial operations in 2006. Pursuant to the relevant laws and regulations in the PRC, if an entity commences operations for not more than 6 months for its first profit-making year, it can choose to be subject to the PRC enterprise income tax in full for that year and to start the tax concessions from the next profit-making year. Thus, Xiamen Microfibre is subject to the standard income tax rate of 15% for the financial year ended December 31, 2006.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits subject to Hong Kong Profits Tax for both years. In the opinion of the Company's directors, the Group is not subject to taxation in any other jurisdiction in which it operates.

The income tax expense of the Group for 2005 and 2006 was less than the amount determined by applying the PRC tax rate of 27% (2005: 27%) to profit before income tax as a result of the following differences:

	Group	
	2006	2005
	HK$'000	HK$'000
Tax at 27% (2005: 27%)	103,641	60,347
Tax effect of expenses that are not deductible in determining taxable profit	859	192
Tax effect of income that are not taxable in determining taxable profit	(12)	(336)
Effect of application of different tax rates of subsidiaries	5,256	3,706
Effect of tax relief	(57,911)	(37,291)
Tax expense for the financial year	51,833	26,618
Effective tax rate for the financial year (%)	13.5	11.9

25 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	Group	
	2006	2005
	HK$'000	HK$'000
Directors' remuneration	8,646	3,008
Research costs (included in other expenses)	-	2,756
Auditors' remuneration:		
- paid to auditors of the Company	345	270
- paid to other auditors	2,129	1,610
Depreciation	37,027	19,748
Loss on disposal of property, plant and equipment	22	16,430
Amortisation of lease premium for land (included in cost of sales)	1,026	856
Cost of inventories recognised as expense	717,417	507,730
Net foreign exchange loss (gain)	3,450	(5)

26 STAFF COSTS

	Group 2006 HK$'000	Group 2005 HK$'000
Directors' remuneration	8,646	3,008
Wages and salaries	21,388	15,992
Contribution to defined contribution plans	1,096	872
	31,130	19,872

27 DIVIDENDS

On September 21, 2006, the Company paid an interim dividend of HK$0.020 per ordinary share and per RCPS (2005: HK$0.015 per ordinary share and per RCPS) totalling approximately HK$9,153,000 (2005: HK$6,864,000) for the current financial period to the shareholders.

The final dividend of HK$0.150 per ordinary share and per RCPS (2005: HK$0.085 per ordinary share and per RCPS) totalling approximately HK$68,644,000 (2005: HK$38,898,000) for financial year ended December 31, 2006 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

28 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit after tax attributable to members of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group 2006 HK$'000	Group 2005 HK$'000
Profit attributable to equity holders of the Company (HK$'000)	332,022	196,890
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	397,624	397,624
Basic earnings per share (HK cents)	83.5	49.5

(b) Diluted earnings per share

For purposes of calculating diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect of all outstanding dilutive potential ordinary shares. The Company has a class of dilutive potential ordinary shares: RCPS. The RCPS are assumed to have been converted into ordinary shares and the profit is adjusted to eliminate the dividends and interest expense on the RCPS less the tax effect. The number of shares calculated as such is compared with the number of shares that would have been issued assuming the conversion of the RCPS.

28 EARNINGS PER SHARE - (cont'd)

(b) Diluted earnings per share - (cont'd)

	Group 2006 HK$'000	Group 2005 HK$'000
Earnings		
Profit attributable to equity holders of the Company	332,022	196,890
Effect of liability component of potential ordinary shares:		
Interest on liability component of RCPS	6,832	5,831
Dividends on liability component of RCPS	5,481	786
Profit used to determine diluted earnings per share	344,335	203,507
Number of shares		
Weighted average number of ordinary shares in issue for basic earnings per share	397,624	397,624
Effective of dilutive potential ordinary shares:		
- RCPS	60,000	53,918
Weighted average number of ordinary shares for diluted earnings per share	457,624	451,542
Diluted earnings per share (HK cents)	75.2	45.1

29 OPERATING LEASE COMMITMENTS

	Group 2006 HK$'000	Group 2005 HK$'000
Minimum lease payments paid under operating leases recognised as an expense in the year	482	356

At the balance sheet date, the outstanding commitment under non-cancellable operating leases, which fall due as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Within one year	469	300
In the second to fifth years inclusive	128	-
Total	597	300

The above leases were negotiated for a period of two years with fixed rentals.

30 CAPITAL EXPENDITURE COMMITMENTS

At the balance sheet date, the Group had the following commitments for capital expenditure:

	2006	2005
	HK$'000	HK$'000
Commitments for the acquisition of:		
- Property, plant and equipment	62,633	64,349
- Lease premium for land	-	5,288
	62,633	69,637

The Company had no capital expenditure commitments at the financial year ended December 31, 2006 (2005: Nil).

STATEMENT OF DIRECTORS

In the opinion of the directors, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company as set out on pages 26 to 50 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2006, and the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company and the Group will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

James Zhang

Cheung Fei Pang

28 February 2007

STATISTICS OF SHAREHOLDINGS

As at 15 March 2007

STATISTICS OF SHAREHOLDINGS AS AT 15 MARCH 2007

Authorised share capital	:	HK$12,000,000
Issued and fully paid-up capital	:	HK$3,976,244
Class of Shares	:	Ordinary and Redeemable non-cumulative convertible preference shares ("RCPS") of HK$0.01 each
Voting Rights	:	One vote per Ordinary share RCPS voting rights as per Subscription Agreement dated 26 October 2004
No. of RCPS holders	:	3 holders holding above 1,000,001 each

Distribution of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	4	0.48	1,039	0.00
1,000 - 10,000	579	69.93	2,745,000	0.69
10,001 - 1,000,000	222	26.81	20,365,611	5.12
1,000,001 and above	23	2.78	374,512,794	94.19
Total :	**828**	**100.00**	**397,624,444**	**100.00**

Twenty Largest Shareholders

	Name	No. of Shares	%
1.	Silver Act Overseas Limited	106,855,140	26.87
2.	Raffles Nominees Pte Ltd	55,902,000	14.06
3.	Citibank Nominees S'pore Pte Ltd	50,580,000	12.72
4.	United Overseas Bank Nominees Pte Ltd	38,350,000	9.64
5.	Lim & Tan Securities Pte Ltd	19,070,000	4.80
6.	Morgan Stanley Asia (S'pore) Securities Pte Ltd	17,285,000	4.35
7.	UOB Kay Hian Pte Ltd	14,348,495	3.61
8.	DBS Nominees Pte Ltd	13,067,000	3.29
9.	CIMB-GK Securities Pte. Ltd.	12,460,000	3.13
10.	OCBC Securities Private Ltd	8,926,000	2.24
11.	HSBC (Singapore) Nominees Pte Ltd	8,894,000	2.24
12.	Magic Melody Holding Limited	5,290,159	1.33
13.	DBS Vickers Securities (S) Pte Ltd	4,477,000	1.13
14.	DBSN Services Pte Ltd	3,298,000	0.83
15.	Merrill Lynch (S'pore) Pte Ltd	2,912,000	0.73
16.	Phillip Securities Pte Ltd	2,119,000	0.53
17.	Lo Kai Leong @ Loh Kai Leong	2,095,000	0.53
18.	Henry Tay Yun Chwan	1,520,000	0.38
19.	Koh Boon Hwee	1,520,000	0.38
20.	Alpha Securities Pte Ltd	1,500,000	0.38
	Total :	**370,468,794**	**93.17**

Approximately 63.68% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of SGX-ST.

Substantial Shareholders (As at 15 March 2007)

	Name of Shareholder	Direct	Deemed
1	James Zhang #	-	138,331,140
2	Silver Act Overseas Limited*	138,331,140	-

\# James Zhang is the owner of the entire issue share capital of Silver Act Overseas Limited and is deemed to be interested in all shares held by Silver Act Overseas Limited.

* Silver Act Overseas Limited holds the shares in the name of UOB Kay Hian Pte Ltd, CIMB-GK Securities Pte. Ltd. and UOB Nominees Pte. Ltd.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Fibrechem Technologies Limited ("the Company") will be held at Grand Hyatt Singapore, Level 3 Function Room "Magnolia III", 10 Scotts Road Singapore 228211 on 27 April 2007 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts for the year ended 31 December 2006 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a final dividend of HK$0.15 per ordinary share and per RCPS with conversion price stated at S$0.42 each [Singapore tax not applicable] for the year ended 31 December 2006. **(Resolution 2)**

3. To re-elect the following Directors retiring pursuant to the Company's Bye-laws:-

Dr Chong Weng Chiew	(Retiring under Bye-Law 86(1))	**(Resolution 3)**
Mr Ong Tiong Seng	(Retiring under Bye-Law 86(1))	**(Resolution 4)**
Mr Lim Chin Tong	(Retiring under Bye-Law 86(1))	**(Resolution 5)**

[See Explanatory Note (i)]

4. To approve the payment of Directors' fees amounting to HKD1,280,667 for the year ended 31 December 2006. **(Resolution 6)**

5. To re-appoint Messrs Deloitte & Touche as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 7)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. **Authority to allot and issue shares up to 50 per centum (50%) of issued share capital**

   That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be empowered to allot and issue shares and convertible securities in the capital of the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares (including shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution) to be allotted and issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the issued share capital of the Company at the time of the passing of this Resolution, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty per centum (20%) of the issued share capital of the Company and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force (i) until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of such convertible securities.
   [See Explanatory Note (ii)] **(Resolution 8)**

8. **Authority to allot and issue shares under the FibreChem Employees' Share Option Scheme**

That the Directors be authorised and empowered to allot and issue shares in the capital of the Company to all the holders of options granted by the Company, whether granted during the subsistence of this authority or otherwise, under the FibreChem Employees' Share Option Scheme ("the Scheme") upon the exercise of such options and in accordance with the terms and conditions of the Scheme, provided always that the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the issued share capital of the Company from time to time.
[See Explanatory Note (iii)] **(Resolution 9)**

By Order of the Board

Sophia Lim Siew Fay
Tan Seng Kiat Christopher
Company Secretaries
Singapore, 11 April 2006

Explanatory Notes:

(i) Dr Chong Weng Chiew will upon re-election as a Director of the Company, remain as a member of the Audit Committee and will be considered independent pursuant to Listing Rule 704(8) of the SGX-ST's Listing Manual. Dr Chong will also remain as Chairman of the Nominating and member of the Remuneration Committee.

Mr Ong Tiong Seng will upon re-election as a Director of the Company, remain as Chairman of the Audit Committee and will be considered independent pursuant to Listing Rule 704(8) of the SGX-ST's Listing Manual. Mr Ong will also remain as member of the Nominating and Remuneration Committees.

Mr Lim Chin Tong will upon re-election as a Director of the Company, remains as a member of the Audit Committee and will be considered independent pursuant to Listing Rule 704(8) of the SGX-ST's Listing Manual. Mr Lim will also remain as Chairman of the Remuneration Committee and member of the Nominating Committee.

(ii) The Ordinary Resolution 8, if passed, will empower the Directors from the date of this Meeting until the date of the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, to allot and issue shares and convertible securities in the Company. The number of shares and convertible securities that the Directors may allot and issue under this resolution would not exceed fifty per centum (50%) of the issued capital of the Company at the time of the passing of this resolution. For issue of shares and convertible securities other than on a pro rata basis to all shareholders, the aggregate number of shares and convertible securities to be issued shall not exceed twenty per centum (20%) of the issued capital of the Company.

For the purpose of this resolution, the percentage of issued capital is based on the Company's issued capital at the time this proposed Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of convertible securities at the time when this proposed Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

(iii) The Ordinary Resolution 9, if passed, will empower the Directors of the Company, from the date of the above Meeting until the next Annual General Meeting, to allot and issue shares in the Company of up to a number not exceeding in total fifteen per centum (15%) of the issued share capital of the Company from time to time pursuant to the exercise of the options under the Scheme.

Notes:

1. If a Shareholder being a Depositor (who is not a natural person) whose name appears in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore) wishes to attend and vote at the Annual General Meeting (the "Meeting"), then it should complete the CDP Proxy Form and deposit the duly completed CDP Proxy Form at the office of the Singapore Share Transfer Agent, Lim Associates (Pte) Ltd at 3 Church Street, #08-01 Samsung Hub, Singapore 049483, at least 48 hours before the time of the Meeting. A Depositor who is a natural person need not complete the CDP Proxy Form if he/she intends to attend in person.

2. If a Depositor wishes to appoint a proxy/proxies, then the CDP Proxy Form must be deposited at the office of the Singapore Share Transfer Agent, Lim Associates (Pte) Ltd at 3 Church Street, #08-01 Samsung Hub, Singapore 049483, at least 48 hours before the time of the Meeting.

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