

**Canton Fair
Import & Export
Co., Ltd.**

Annual Report 2008

President's Oration

Ladies and gentlemen,

The acceleration of globalization and the rise of high technology have brought us leaps and bounds in the development of strategic opportunities. Canton Fair Import & Export Co., Ltd. is making progress continuously. After suffering the impact of financial storm in 2008, we continued to strive to strengthen ourselves and to confront the challenges.

Under the leadership of China Foreign Trade Center (Group) and with the full support from all the departments, Canton Fair Import & Export Co., Ltd. implements the central spirit of the 17th Session of the General Assembly, learns and puts scientific thought of development into practice. Our staff made concerted efforts to overcome the financial impact. Finally, we finished the marketing program and fulfill the annual sales budget in 2008.

Besides, globalization is the mainstream of the world development process. As a company we have shown that we try our best to keep pace with the times. We have joined the Global Compact and fully support the principles of the Global Compact. This decision turned

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out to be an important step to integrate into the global community.

Through this annual annual report, we absorb the precious experience of the past year and plan reasonable strategies for the next year.

Eugene Liang

President

Canton Fair Imp.& Exp. Co., Ltd.

General Situation in 2008

In general, our company had a turnover of 236 million Yuan in 2008, which was 19% less than last year and the export volume was 193 million Yuan, which was 23.7% less than that in 2007. In this year, the pre-tax profit decreased by 21.3% to about 3.27 million Yuan. The ROI of stockholders turned out to be 57%.

The data above showed that our company is facing unprecedented challenges due to the influence of the social, political and economic environment nowadays. It is more and more difficult to extend business. Consequently, the volume of business has fallen to a certain extent and the development prospect is not as good as last year.

The appreciation of the RMB, the dramatic rise of the cost of production, the declination of international economy, the fierce industry competition and other complicated problems have brought us enormous pressure. In such a difficult situation, we have to draw together and face the difficulties and challenges corporately. Innovative spirit is the crucial instruction for our company to exploit a new direction of management. To confront the different problems and troubles the financial crisis has brought

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us, we have to apply the scientific thought of development in management and operation.

Business Circumstance

1. The amount of exports fell sharply.

Export is the main business of our corporation. The export situation plays an important role in the development process of the corporation. In 2008, the export operation was made difficult by the bad circumstance. To keep and to expand the export business under the pressure from different aspects is very hard.

On one hand, the appreciation of the RMB at a high speed made the export business more and more difficult. Especially in the first half year, the exchange rate of USD to RMB was changing from 1:7.29 to 1:6.80. Price had always been the advantage in export competition for us. However, the appreciation led to the rise of direct export price and thereby our advantage was impaired gradually.

On the other hand, with the aggravation of the financial storm, the global economic growth slowed down. The consumer confidence and the consuming capacity in the international consumer market were weakened at a large scale due to the economic recession. In the second half year, the financial crisis spread rapidly, which led

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to the unsteadiness of the international trade, the increase of uncertain factors, the reduction of the consumer demand and the bearish market. All of these caused the decrease of the customers and the export orders.

Meanwhile, the State Administrative Authority had taken a series of measures to maintain monetary stability and to manage the import and export business strictly.

As the main business for our corporation, export trading is crucial to the development of the corporation. In 2008, the amount of exports and the gross profit took up respectively 80% and 75% of the total turnover of imports and exports. Nevertheless, the entire trend of the import and export business began to slide since the appreciation of the RMB. Especially, our export business was attacked by the financial storm.

Confronting the difficulties and the challenges and under great pressure, our staff endeavored to explore new market and expand business. In spite of the severe circumstance, our main business remained stable.

Analysis of Export Amounts:

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The export amounts of sanitary products, gifts and hardwares are generally as much as last year.

The turnover of the following export products maintained increasing:

Export products	Turnover (Yuan)	Increasing amount (Yuan)
Electronic products	11.96 million	720,000
Furniture	60.58 million	1.61 million
Stone carving products	8.5 million	130,000

The turnover of the following export products decreased sharply:

Export products	Turnover (Yuan)	Decreasing amount (Yuan)
Soler lamp	8.13 million	24.65 million
Auto spare parts	410,000	17.8 million
Kitchenware	6.32 million	19.7 million
Articles for daily use	26.3 million	13.39 million

As we can observe from the data above that the amount of

most our self-run export products decreased slightly or maintained stable, except that the turnover of solar lamps and auto spare parts decreased owing to some particular factors. By contrast, the amount of export products of our agent service dropped dramatically. Since the profit from the agent service is not high, the gross profit remained almost the same as that in the previous year.

Despite all this, the decreasing amount of export products has a negative effect on the development of the corporation, for the export business takes up a large proportion in the business operation.

2.The amount of imports rocketed obviously.

According to the changes of the international economic environment, we reset the development strategy. On one hand, our corporation puts emphasis upon export business. On the other hand, we expand import business with all our strength. In recent years, our import business has been going well. However, the proportion of the import business in the turnover and the gross profit is small. Therefore, compared to the scale of our export business the import business is of secondary importance.

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In 2008, we intensified our efforts to broaden the import business, in order to amend the imbalance in our business operation, in which the export business is on the leading position. The expansion of the import business helped make up for a deficiency in the export business during the financial storm. With the endeavor of our business team, our corporation achieved excellent results in the import business.

Especially, the turnover of the following import products increased substantially.

Import products	Turnover (Yuan)	Increasing amount (%)
Famous brand clothes	12.65 million	15.4%
Textile and leather products	32.5 million	12%
Cosmetics	9.92 million	34%

In spite of the remarkable achievement in the import business, we also have to realize that, we began to develop import business recently and our import business team is still not strong enough. As a result, the effect of the import business on our entire business is relatively limited.

3. Service trade is developing slowly.

Nowadays, service trade has become an important part of the international trade. With the development of service trade, the company which does not conform with the times will be discarded. In the last two years, we have been doing our best to innovate the operating modes. Though we have put a lot of resources and materials into the operation of service trade, the internal service trade in the present time is still in the starting stage and is based on export business. The adverse situation of export business has a great impact on service trade. The development of service trade has been limited. In 2008, the turnover of our service trade was 3.8 million yuan, 52% less than last year.

Measures of Business Operation

Improvement

The current operating conditions are caused by the changes of the international economic circumstances and the severe environment of domestic business operation. Confronting the objective difficult situation, we must spare no effort in promoting the sales, expanding business and exploiting new market.

1. Cut down expenditures and increase income

For the enterprise operation, the functional departments should implement the principles of the company management strictly and reinforce supervision and control of the business operation. All departments should work well with the functional departments, in order to cut down the expenditures as much as possible. Meanwhile, we should support the business segment in all fields. We can cooperate with the banks in financial services. Our staff should spare no effort to expand import and export business, communicate with our business partners and other companies, and increase the turnover.

2. Carry out training programmes about politics and discipline education

According to the request of the Guangdong Provincial Party Committee, our corporation should organize different training programmes and study scientific thought of development in the way of studying materials, holding symposia and making social investigations. The directors motivate our staff to analysis the problems and challenges, which we are facing. We organize training programmes about politics and discipline education regularly, in order to improve the quality of the staff.

3. Enrich the cultural life and improve the physical and mental health of the staff

We concern ourselves about the work and also care for the leisure time activities of our staff. This year, we have organized some tour trips to Zhaoqing and Luofu Mountain. Through these trips, our staff have a chance to relax and to communicate with each other. Additionally, we hold different sport competitions regularly and encourage our staff to take part in these competitions. Participation in sport benefits our health and helps to generate a sense of well-being and a cohesiveness in society.

Implementation of the Global Compact Principles in 2008

Since Canton Fair Imp. & Exp. Co., Ltd. joined the Global Compact in 2006, we have been implementing the Global Compact principles. In this year, we focused on human rights and environment.

1. Human Rights

Principle 1: Business should support and respect the protection of internationally proclaimed human rights.

Principle 2: Business should make that they are not complicit in human rights abuses.

Our corporation accords great importance to respect for the United Nations Universal Declaration of Human Rights. It is also a significant part of our commitment to the social responsibility. We do not discriminate against any employee for any reason, such as age, gender, disability etc. We have been doing our best to protect the rights of our employees. All along, our company guarantees all the employees a fair working environment and the employees are

paid equally for equal work.

We organize our employees to participate in human rights training programme regularly, which helps us get more information about human rights. Through this programme, we can learn systematically to respect human rights and to protect our own rights.

In 2008, we were seeking for office clerks. We advertised job offers in the Internet and received a number of resumes from the candidates with different age and from different provinces. We gave chance to all applicants to express their abilities. All of them were required to pass through a series of tests.

This process ensured that the recruitment was operated fairly and objectively. Advocacy for human rights is one of the principles of our corporation.

2. Environment

Principle 8: Business should undertake initiatives to promote greater environmental responsibility.

Principle 9: Business should encourage the development and

diffusion of environmentally friendly technologies.

Environmental protection is one of the important themes in the world. China lays more and more emphasis on developing environmental protection industry. Consequently, we apply environmental management measures throughout the corporation. Our strategies for the development are always based on environmental protection. We advocate environmentally friendly products and pay attention to the application of new style environmentally friendly materials.

Over the past few years, we have been trying to deal in environmentally friendly products. By doing this, we are doing our part for the environment. In 2008, about 55% of our import and export products were environmentally friendly products, 20% more than last year.

Moreover, we are making preparation for the establishment of an international technology transfer center. Through this center, we can introduce the advanced technologies from all over the world to the domestic enterprises, so that they can use the innovative technologies to reduce environmental impact in all of the operations.

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At the end of the year, the international technology transfer center has been established. This is the first step of our plan for environmental protection and defects exist in different aspects, which need to be improved.

In the following years, the international technology transfer center is going to be put into practice. We should make joint efforts to carry out our plan.

Conclusion

To sum up the points which we have just indicated, the situation of our corporation attributes to the following sources.

Firstly, the international economic circumstance had an impact on the import and export business of our company. The appreciation of the RMB and the aggravation of the financial storm have caused the decrease of the customers and the total turnover.

Secondly, the company's business operation is dependent on the export business. The export business plays an important role in the development process of the corporation all the time. Therefore, the decrease of the export amounts affected the whole circumstance of the business operation.

Thirdly, some of our staff were depressed because of the financial storm. The sentiment of the staff influenced the attitude toward work and efficiency of operations.

So in the next year, we must work well with each other and find specific ways to solve the problems.