

22 REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 18 to the financial statements.

An analysis of the performance of the Group for the year by business and geographical segments is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out on page 31.

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

CHANGE OF NAME

By a special resolution passed on 6 September 2006, the name of the Company was changed from New Smart Holdings Limited to New Smart Energy Group Limited, effective on 22 September 2006.

PROPERTY, PLANT AND EQUIPMENT

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

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out on pages 77 to 79.

DIRECTORS

The Directors of the Company during the year and at the date of this report are:

Tong Nai Kan

Chow Sim Chu, Shirley

Bai Yang

Tan Chuanrong (appointed on 22 January 2007)

Tang Tin Sek *

Liu Ngai Wing *

Lam Yat Fai *

Chan Kin Sang * (appointed on 21 July 2006)

Tsang Kwong Fook, Andrew (appointed on 19 June 2006 and resigned on 22 December 2006)

* *Independent Non-executive Directors*

REPORT OF THE DIRECTORS

DIRECTORS (Continued)

In accordance with Articles 104 and 105 of the articles of association of the Company, Miss Chow Sim Chu, Shirley and Dr. Tang Tin Sek retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 110 of the articles of association of the Company, Mr. Chan Kin Sang and Mr. Tan Chuanrong retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The term of office for each Non-executive Director is the period up to his retirement by rotation in accordance with the articles of association of the Company.

The Directors of the Company do not have any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACT

There is no contract of significance in relation to the Group's business to which the Company or any of its subsidiary companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2006, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Ordinary shares of the Company

Director	Nature of interest	Number of shares	Percentage
Tong Nai Kan	Corporate (<i>Note</i>)	180,000,000	17.00
Tan Chuanrong	Personal	52,500,000	4.96
Chow Sim Chu, Shirley	Personal	1,310,000	0.12
Tang Tin Sek	Personal	<u>158,000</u>	<u>0.01</u>

Note: These shares are beneficially owned by and registered in the name of Gold Blue Group Limited and Time Prosper Holdings Limited, which are 100% beneficially owned by Mr. Tong Nai Kan.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**(Continued)**

Options granted to the Directors under the share option scheme of the Company and remained outstanding at 31 December 2006 were as follows:

Director	Date of grant	Exercisable period	Exercise price HK\$	Number of shares comprised in the options
Tang Tin Sek	8 March 2006	8 April 2006 to 7 March 2011	0.2648	610,000
Liu Ngai Wing	8 March 2006	8 April 2006 to 7 March 2011	0.2648	610,000
Lam Yat Fai	8 March 2006	8 April 2006 to 7 March 2011	<u>0.2648</u>	<u>610,000</u>

Save as disclosed above at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

Name	Number of shares	Percentage
Tong Nai Kan (<i>Note</i>)	180,000,000	17.00
Time Prosper Holdings Limited ("Time Prosper")	120,000,000	11.33
Gold Blue Group Limited ("Gold Blue")	<u>60,000,000</u>	<u>5.67</u>

Note: Mr. Tong Nai Kan is the beneficial owner of the entire issued share capital of Gold Blue and Time Prosper. In accordance with the SFO Ordinance, the interests of Gold Blue and Time Prosper are deemed to be, and have therefore been included in the interests of Mr. Tong Nai Kan.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of Directors is interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

SHARE OPTIONS

Under the terms of the share option scheme (the "Scheme") of the Company approved by the shareholders on 29 December 2004 (the "Adoption Date"), the Directors of the Company may, at their discretion, offer any eligible participants (including any Directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company (the "Options") subject to the terms and conditions stipulated in the Scheme. During the year, share options are granted to employees specified under the Scheme. A summary of the Scheme is set out below:

- (1) Purpose
 - (a) To recognise and acknowledge the contributions which the eligible participants have made or may make to the Group; and
 - (b) The Scheme will provide the eligible participants an opportunity to have a personal stake in the Company with a view to achieving the following objectives:
 - (i) motivate the eligible participants to utilise their performance and efficiency for the benefit of the Group; and
 - (ii) attract and retain or otherwise maintain on-going relationship with the eligible participants whose contributions are or will be beneficial to the long term growth of the Group.
- (2) Eligible participants
 - (a) any Director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity; and
 - (b) any discretionary trust who discretionary objects include any Director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity;

and for the purpose of the Scheme, the Option may be granted to any corporation wholly-owned by any person under (a) above.

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SHARE OPTIONS (Continued)

(3) Total number of shares available for issue

Subject to the paragraph below, the total number of shares which may be issued upon exercise of all the Options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares in issue (or the shares of the Subsidiary) as at Adoption Date, being 61,058,439 shares (the “Scheme Mandate Limit”).

At the last annual general meeting of the Company held on 24 May 2006, an ordinary resolution was passed refreshing the Scheme Mandate Limit so that the Company would be allowed to grant options under the Share Option Scheme for subscription of up to a total of 73,058,439 Shares (the “Refreshed Scheme Limit”), representing 10% of the issued share capital of the Company as at 24 May 2006.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes for the time being of the Company shall not, in aggregate, exceed such number of shares as equals 30% of the shares in issue from time to time.

As at the date of this report, the total number of shares available for issue under the Scheme was 301,964,317 shares, which represented approximately 23.72% of the issued share capital of the Company on that date.

(4) Maximum entitlement of each eligible participant

The total number of shares issued and to be issued upon exercise of the Options granted to an eligible participant (including exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares in issue from time to time.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided that the Company shall issue a circular to shareholders before such approval is sought, the Company may grant a participant options which would exceed this limit.

(5) Option period

The period within which the shares must be taken up under the Option must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for which the Option must be held before it can vest

The minimum period, if any, for which the Option must be held before it can vest shall be determined by the Board in its absolute discretion. The Scheme itself does not specify any minimum holding period.

SHARE OPTIONS (Continued)

(7) Payment on acceptance of the Option

HK\$1.00 is payable by the grantee to the Company on acceptance of the Option offer. An offer must be accepted within 30 days from the date of grant.

(8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

- (i) the closing price of the shares on the date of grant;
- (ii) the average closing prices of the shares for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

(9) The remaining life of the Scheme

The life of the Scheme is 10 years commencing on the Adoption Date and will expire on 28 December 2014.

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SHARE OPTIONS (Continued)

Details of the share options outstanding as at 31 December 2006 which have been granted under the Scheme are as follows:

Name	Grant date	Exercise price HK\$	Exercisable period	1 January 2006	Number of options			31 December 2006
					Granted	Cancelled	Exercised	
Employees	27 September 2005	0.2500	27 October 2005 to 26 September 2010	43,220,000	-	-	(22,820,000)	20,400,000
Employees	27 September 2005	0.2500	27 March 2006 to 26 September 2010	400,000	-	-	(300,000)	100,000
Directors	8 March 2006	0.2648	8 April 2006 to 7 March 2011	-	2,440,000	-	(610,000)	1,830,000
Employees	8 March 2006	0.2648	8 April 2006 to 7 March 2011	-	5,700,000	-	-	5,700,000
Employees	8 March 2006	0.2648	8 September 2006 to 7 March 2011	-	6,100,000	-	(6,100,000)	-
Employees	1 June 2006	0.2900	1 July 2006 to 31 May 2011	-	72,900,000	(17,780,000)	-	55,120,000
Employees	1 November 2006	0.4140	1 March 2007 to 29 February 2012	-	10,480,000	-	-	10,480,000
				<u>43,620,000</u>	<u>97,620,000</u>	<u>(17,780,000)</u>	<u>(29,830,000)</u>	<u>93,630,000</u>

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover during the year attributable to the Group's five largest customers was 52% of the Group's total turnover, of which 27% was made to the largest customer.

The aggregate purchase of revenue items during the year attributable to the Group's five largest suppliers was 71% of the Group's total purchases of revenue and services, of which 55% was made from the largest supplier.

None of the Directors, their associates or any shareholder who to the knowledge of the Directors owns more than 5% of the Company's share capital has an interest in the suppliers or customers disclosed above.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received the annual confirmation of independence from each of the Independent Non-executive Directors as required under Rule 3.13 of the Listing Rules. The Company considered all Independent Non-executive Directors to be independent.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year except that the independent non-executive directors are not appointed for a specific terms as they are subject to retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire at the forth coming Annual General Meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Tong Nai Kan

Chairman and Managing Director

Hong Kong, 18 April 2007