

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 14 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 32.

Taking into account of tremendous ongoing capital commitment of the Group for those undergoing construction works, the directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil). However, the Board of Directors will determine dividend distribution policies once the Group has secured long-term stable income by successfully entering into sizeable long-term leases with our customers during the year.

SHARE CAPITAL

Details in movement in share capital of the Company are set out in note 23 to the financial statements.

RESERVES

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the year are set out on the Consolidated Statement of Changes in Equity and in note 24 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserve available for distribution amounted to 313.3 million (2005: HK\$384.4 million).

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 25 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of property, plant and equipment during the year are set out in note 12 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

David An (*Chairman*)

Feng Ya Lei

Zhou Nan Zheng

Fung Chi Kwan, Nicholas (appointed on 7 April 2006)

Liu Zhijun (appointed on 7 April 2006)

William W Liu (resigned on 12 September 2006)

Independent non-executive directors

Li Wai Keung

Liu Jian

Chan Chun Wai, Tony

In accordance with Articles 116 of the Company's Articles of Association, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian shall retire by rotation. In addition, Ms. Feng Ya Lei shall retire at the forthcoming annual general meeting according to the terms of her appointment. Ms. Feng Ya Lei, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Articles of Association.

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2006, the interest and short positions of directors and their associates 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") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules on the Stock Exchange were as follows:

Ordinary shares of HK\$0.10 each of the Company

Name of director	Nature of interest	Number of shares		Approximate percentage to the issued share capital of the Company
		Long position	Short position	
Mr. David An (note 3)	Corporate	1,643,659,980 (note 1)	Nil	66.35%
	Corporate	1,270,000,000 (note 2)	Nil	51.27%

Notes:

1. The shares are held directly as to 209,773,980 shares by Extreme Wise Investments Ltd ("Extreme Wise") and 1,433,886,000 shares by Vand Petro-Chemicals (BVI) Company Ltd ("Vand Petro-Chemicals"), both of which are wholly-owned by Mr. David An. By virtue of SFO, Mr. David An is deemed to have corporate interest in the 1,643,659,980 shares.
2. 1,270,000,000 shares (subject to adjustment) will be issued to Vand Petro-Chemicals upon its exercise of the conversion rights under the convertible notes held by it. By virtue of SFO, Mr. David An is deemed to have corporate interests in the 1,270,000,000 shares.
3. Mr. David An, being a director of the Company, is also acting as the Chief Executive of the Company.

Save as disclosed above, as at 31 December 2006, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme detailed in note 25 to the financial statements and the convertible notes held indirectly by Mr. David An, 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 to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

CONNECTED TRANSACTIONS

There were no transactions which were required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS

There were no contracts of significance to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisting at the end of the year or at any time during the year.

CORPORATE GOVERNANCE

The Company is committed to a high standard of corporate governance. The Company's corporate governance practices are based on the Principles and the Code Provisions as set out in the CG Code contained in Appendix 14 of the Listing Rules. The Company regularly reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. Throughout the year 2006, the Company has complied with the CG Code as set out in the Corporate Governance Report on pages 13 to 21.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

At 31 December 2006, shareholders (other than directors of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Ordinary shares of HK\$0.10 each of the Company

Name of shareholders	Number of shares		Approximate percentage to the issued share capital of the Company
	Long position	Short position	
Extreme Wise (<i>Note 1</i>)	209,773,980	Nil	8.47%
Vand Petro-Chemicals (<i>Note 1</i>)	1,433,886,000	Nil	57.88%
	1,270,000,000	Nil	51.27%
	(<i>Note 2</i>)		

Note: 1. Both Extreme Wise and Vand Petro-Chemicals are wholly-owned by Mr. David An.

2. 1,270,000,000 shares (subject to adjustment) will be issued to Vand Petro-Chemicals upon its exercise of the conversion rights under the convertible notes held by it.

Save as disclosed above, the Company has not been notified by any persons (other than directors of the Company) who, as at 31 December 2006, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 62.79% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 46.51% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 55.78% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 25.42% of the Group's total purchases.

Saved as disclosed above, none of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers or suppliers of the Group.

BORROWINGS

Details of movements in the Group's promissory note during the year are set out in note 20 to the financial statements respectively.

CONVERTIBLE NOTE

In 2004, the Company issued a convertible note amounting HK\$681 million. Further details of the convertible note are set out in note 19 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2006, the Group had a workforce of 264 employees, 247 of which worked for the terminals. Every year, the Group devises a budget which states total salary and bonus plan for the year to encourage the Group's employees to contribute their best efforts and to make maximum economic benefits to the Group. In accordance with the relevant government regulations in the PRC, the Group is required to cover social insurance, including but not limited to retirement, medical, workman compensation and unemployment insurance as well as housing fund for every qualified employee in the PRC. With these insurance policies and staff benefits, the Group hopes to provide a reasonable welfare for each qualified employee.

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased its shares through the Stock Exchange as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
September 2006	54,948,000	0.430	0.385	23,179
October 2006	27,272,000	0.425	0.395	11,301
November 2006	21,654,000	0.485	0.425	9,595
December 2006	38,980,000	0.500	0.460	19,298
	<u>142,854,000</u>			<u>63,373</u>

The repurchased shares were cancelled, and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares and related expenses, in the amount of HK\$49,088,000, was charged to the share premium account.

The repurchase of the Company's shares during the year were effected by the directors pursuant to the mandate from shareholders received at the previous annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PUBLIC FLOAT

For the year ended 31 December 2006, based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules.

LITIGATION

As at 31 December 2006, there were no material contingent liabilities in respect of outstanding litigation or legal proceedings that need to be disclosed.

AUDITORS

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

Delotte Touche Tohmatsu were auditors of the Company until 15 February 2005. KPMG has been appointed as auditors of the Company since 2005.

On behalf of the Board

David An

Chairman

Hong Kong, 28 March 2007