

# REPORT OF THE DIRECTORS

The directors present their report to the shareholders together with the audited financial statements for the financial year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Group is the holding of equity investments primarily in companies or other entities with significant business interests or involvement in the People's Republic of China ("PRC").

## SUBSIDIARIES AND ASSOCIATES

Particulars of the Group's principal subsidiaries and associates at 31 December 2006 are set out on pages 71 and 55 of this report.

## RESULTS

The results of the Group for the financial year ended 31 December 2006 are set out in the consolidated income statement as set out on page 30 of this report.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is given on page 74 of this report.

## DIVIDENDS

The Directors resolved to recommend the payment of a final dividend of HK1.6 cents per share in respect of the financial year ended 31 December 2006 (2005: nil).

## FIXED ASSETS

Details of movements in fixed assets are set out in note 12 to the financial statements.

## SHARE CAPITAL

Details of the Company's authorised and issued share capital during the financial year are set out in note 19 to the financial statements on pages 62 to 63 of this report.

# REPORT OF THE DIRECTORS

## RESERVES

Movements in the reserves during the financial year are set out in note 20 to the financial statements on pages 63 to 64 of this report.

## DIRECTORS

The directors of the Company during the financial year were:

- Mr. Liu Xiao Guang, *Chairman*
- Mr. Lawrence H Wood, *Chief Executive officer*  
(also known as Wu Yuk Shing or Hu Xu Cheng)
- Mr. Cheng Bing Ren
- Mr. Liu Xue Min
- Mr. Shi Tao (appointed on 16 November 2006)
- Dr. Kwong Chun Wai Michael
- Mr. To Chun Kei
- Mr. Fung Tze Wa

Mr. Cheng Bing Ren, Mr. Liu Xue Min and Mr. To Chun Kei will retire by rotation from the board of directors in accordance with Article 88 of the Company's articles of association at the forthcoming annual general meeting. Mr. Cheng Bing Ren, Mr. Liu Xue Min and Mr. To Chun Kei, all being eligible, offer themselves for re-election.

Mr. Shi Tao who appointed on 16 November 2006 to fill a casual vacancy shall hold office until the next following annual general meeting and shall then be eligible for re-election in accordance with Article 87(3) of the Company's articles of association.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 11 of the annual report.

## DIRECTORS' SERVICE CONTRACT

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

## REPORT OF THE DIRECTORS

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

As at 31 December 2006, none of the Directors of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which would have to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests, or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Company, to be notified to the Company and the Stock Exchange.

### INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to the Directors, as at 31 December 2006, the persons/companies who have 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 were as follows:

Name of Shareholder	No. of Shares	Approximate% of shareholding
Lin Si Yu ( <i>Note 1</i> )	107,600,000	17.35
Sense Control International Limited ( <i>Note 1</i> )	107,600,000	17.35
Dover VI Associates, LLC ( <i>Note 2</i> )	105,800,000	17.06
Dover VI Associates, L.P. ( <i>Note 2</i> )	105,800,000	17.06
Dover Street VI L.P. ( <i>Note 2</i> )	105,800,000	17.06

*Notes:*

1. Sense Control International Limited is beneficially owned by Mr. Lin Si Yu. Mr. Li Si Yu is therefore deemed to be interested in the same parcel of shares held by Sense Control International Limited.
2. The 105,800,000 shares were held by Dover Street VI L.P. Dover VI Associates, LLC has controlling interest in Dover VI Associates L.P. and Dover VI Associates L.P. has controlling interest in Dover Street VI L.P. Both Dover VI Associates, LLC and Dover VI Associates L.P. are therefore deemed to be interested in the same parcel of shares held by Dover Street VI L.P..

### POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 28 to the annual report.

### PRE-EMPTIVE RIGHTS

There are no pre-emptive rights provisions in the Articles of Association of the Company nor are there any pre-emptive rights provisions generally applicable under the law of the Cayman Islands.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN CONTRACTS

Mr. Lawrence H. Wood is holding 100% of the shareholding of ZY International Project Management Limited (the "Project Manager"). Mr. Wood is also a director and chief executive officer of the Company. Mr. Wood therefore is regarded as a connected person of the Company under Chapter 14A of the Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rules") and accordingly the project management agreement entered into between the Company and the Project Manager at 27 September 2006 constituted continuing connected transaction for the Company under Chapter 14A of the Listing Rules. Details of which are set out under Management Contracts and Continuing Connected Transactions.

Save as disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material beneficial interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

## SHARE OPTION SCHEME

As at 31 December 2006, the particulars in relation to the share option scheme of the Company that are required to be disclosed under Rules 17.07 and 17.09 of Chapter 17 of the Listing Rules, were as follows:

- Purpose: To give incentive to any executive director or employee of the Company, or any director or employee of any subsidiaries from time to time of the Company
- Participants: any director, employee, executive of the Company, or any subsidiaries from time to time of the Company
- Total number of ordinary shares available for issue and percentage of the issued share capital that it represents as at the date of the annual report: 64,711,400 ordinary shares and 10% of the issued share capital
- Maximum entitlement of each participant: Not to exceed 1% of the issued share capital in any 12 month period
- Period within which the securities must be taken up under an option: 30 calendar months commencing from the expiration of the first 6 calendar months period after the offer date of the relevant option
- Minimum period for which an option must be held before it can be exercised: 6 calendar months after the offer date of the relevant option
- Amount payable on acceptance of an option: HK\$10
- Period within which payments/calls/loans must be made/repaid: Not applicable

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- Basis of determining the exercise price: The closing price of the share on the date of acceptance of grant or the average closing price of the 5 trading days preceding the day of acceptance of the relevant option or the nominal value of the share, whichever is higher
- The remaining life of the share option scheme: Valid and effective for a period of 10 years after the date of adoption of the share option scheme unless otherwise terminated under the terms of the option scheme

Since the adoption of the share option scheme of the Company, no options to subscribe for ordinary share in the Company have been granted to any eligible participants under the share option scheme and no options have been cancelled or lapsed in accordance with the terms of the share option scheme during the financial year.

## MANAGEMENT CONTRACTS AND CONTINUING CONNECTED TRANSACTIONS

Details of the management contracts and continuing connected transactions are as follows:

- (1) Under an investment management agreement made between ING Beijing Investment Company Limited (“ING Beijing”) (dissolved on 1 February 2007) and Baring Capital (China) Management Limited (renamed as ING Real Estate (Asia) Limited) (“ING Real Estate”) dated 25 April 1994, ING Real Estate agreed to provide investment management services in relation to the investment portfolio of the Group for a period of three years from the date of the agreement. ING Real Estate, in accordance with the terms of the agreement as revised by a supplemental agreement dated 22 May 1998 and a second supplemental agreement dated 7 January 1999, is entitled to a fee calculated at the rate of 2.00 per cent. per annum of the net asset value of ING Beijing, payable quarterly in advance. ING Real Estate is also entitled, with effect from the financial year ended 31 December 1999, to receive an incentive fee calculated at (i) 10 per cent. of the realised profit of ING Beijing for a financial year if the realised profit per issued share does not exceed 10 per cent.; (ii) 15 per cent. of the realised profit if the realised profit per issued share exceeds 10 per cent. but is below 15 per cent.; or (iii) 20 per cent. of the realised profit if the realised profit per share equals or exceeds 15 per cent. The agreement is determinable by either ING Real Estate or ING Beijing giving to the other party not less than 6 months’ prior notice of termination. On 29 October 2004, the Company, ING Real Estate and ING Beijing entered into a novation agreement, pursuant to which the parties agreed that ING Beijing assigned to the Company all its rights and benefits under the investment management agreement. The investment management agreement was terminated on 31 August 2006.

Under an investment management agreement made between the Company and Avanta Investment Management Limited (“Avanta”) dated 21 August 2006, Avanta agreed to provide investment management advice and all matters relating to the Company’s listing status and regulations in relation to Listing Rules and Corporate Governance to the Company for a period of three years from 1 September 2006. Avanta, in accordance with the terms of the agreement, is entitled to a fee for HK\$400,000 per annum, payable quarterly in advance.

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As ING Real Estate and Avanta are regarded as connected persons of the Company and accordingly the two investment management agreements constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The total amount of the aforesaid transactions for the year ended 31 December 2006 were HK\$1,427,494 and HK\$100,000 respectively.

- (2) Under a project management agreement made between the Company and the Project Manager dated 27 September 2006 (the “Project Management Agreement”), the Project Manager agreed to provide project management services as defined in the Project Management Agreement includes the provision of assistance or procurement of information as may be reasonably required by the board of directors of the Company to carry out due diligence exercise on the potential projects, and assisting the Company in liaising with and supervising of PRC professional advisers; assisting in the execution of the investment and divestment decisions of the Company; responsible for the day-to-day management and supervision of the Company’s investments; assisting the Company in completing all legal and statutory requirements in executing the investments of the Company, and providing coordination in obtaining all necessary approval of investments from relevant government authorities. The Project Management Agreement is for an initial term of three years and shall be automatically renewed thereafter for a further three-year period unless and until terminated by either party in accordance with the Project Management Agreement.

Pursuant to the Project Management, the Company has paid the Project Manager a sum of HK\$540,000 upon execution of the agreement. It is a lump sum compensation to the Project Manager in respect of the project consultancy and management services and efforts provided by the Project Manager to the Company for the period of 4 months from 1 June 2006 to 30 September 2006.

The Project Manager, in accordance with the terms of the agreement, is entitled to a fee calculated at the rate of one per cent per annum of the net asset value of the Company as at the end of each month, payable quarterly in advance. The Project Manager is also entitled to receive an incentive fee calculated at (i) 10% of the realised profit of the Company for a financial year if the realised profit per issued share does not exceed 10%; (ii) 15% of the realized profit if the realised profit per issued share exceeds 10% but is below 15%, or (iii) 20% of the realized profit if the realised profit per share equals or exceeds 15%.

Mr. Wood is holding 100% of the shareholding of the Project Manager. Mr. Wood is also a director and chief executive officer of the Company. Mr. Wood therefore is regarded as a connected person of the Company under Chapter 14A of the Listing Rules and accordingly the Project Management Agreement constituted continuing connected transaction for the Company under Chapter 14A of the Listing Rules. The total amount of the aforesaid transaction for the year ended 31 December 2006 was HK\$945,866.

- (3) Under a custodian agreement between the Company and Law Debenture Corporation (H.K.) Limited (“Law Debenture”) dated 1 January 2005, Law Debenture shall be responsible for the safe-keeping of all the Documents of Title which may be delivered to it by the Company from time to time during the continuance of the Custodian agreement. The Custodian agreement has no fixed term but is subject to termination by either Law Debenture or the Company giving to the other party not less than 25 days’ prior notice of termination. Law Debenture is entitled to receive a fixed fee of HK\$50,000 per year under the custodian agreement. The custodian agreement was terminated on 30 September 2006.

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Under a custodian agreement between the Company and ING Management (Hong Kong) Limited (“ING Management”) dated 20 September 2006, ING Management shall be responsible for the safe-keeping of all the Documents of Title which may be delivered to it by the Company from time to time during the continuance of the custodian agreement. The custodian agreement has no fixed term but is subject to termination by either ING Management or the Company giving to the other party not less than one month’s prior notice of termination. ING Management is entitled to receive a fixed fee of HK\$60,000 per year payable in advance on quarterly basis.

Law Debenture and ING Management are regarded as connected persons of the Company and accordingly the two custodian agreements constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The total amount of the aforesaid transactions for the year ended 31 December 2006 were HK\$37,400 and HK\$15,000 respectively.

- (4) Under an administrative agreement between the Company and ING Management dated 29 October 2004, ING Management agreed to provide administrative services to the Company. The administrative agreement has no fixed term but is subject to termination by either ING Management or the Company giving to the other party not less than six months prior notice of termination. ING Management is entitled to receive a fixed fee of HK\$800,000 per year under the administrative agreement. The administrative agreement was terminated on 30 September 2006.

As ING Management is regarded as connected person of the Company and accordingly the administrative agreement constituted continuing connected transaction for the Company under Chapter 14A of the Listing Rules. The total amount of the aforesaid transactions for the year ended 31 December 2006 was HK\$598,356.

The directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of continuing connected transactions of the Company. The procedures were performed solely to assist the directors of the Company to evaluate in accordance with Rules 14A.38 of the Listing Rules whether, the above continuing connected transactions:

- (a) had received the approval of the directors of the Company;
- (b) had been entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (c) had not exceeded the relevant cap amounts for the financial year ended 31 December 2006.

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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## ARRANGEMENTS TO PURCHASE SHARES BY DIRECTORS

At no time during the financial 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 acquisition of shares in the Company or any other body corporate.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the financial year, 26,900,000 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$0.158 to HK\$0.255 per share through The Stock Exchange of Hong Kong Limited. During the period from 1 January 2007 to 13 April 2007, 120,000 shares of HK\$0.01 each were repurchased by the Company at prices ranging from HK\$0.182 to HK\$0.185 per share through The Stock Exchange of Hong Kong Limited. As at the date of this report, all of the repurchased shares were subsequently cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the financial year.

## INVESTMENTS

Details of the Group's investments as at 31st December 2006 are set out on page 60.

## BANK LOAN, OVERDRAFTS AND OTHER BORROWINGS

The Group has no bank loan, overdraft or other borrowing outstanding as at 31 December 2006.

## INTEREST CAPITALISED

There is no interest capitalised by the Group during the financial year.

## EMPLOYEE

As at 31 December 2006, the Company has 6 employees. Basic salary, double pay, discretionary bonus and mandatory provident fund scheme are provided to these employees.

## AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors. This Committee acts in an advisory capacity and makes recommendations to the Board. The Group's 2006 final results was reviewed and recommended to the Board for approval by this Committee on 4 April 2007.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.



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### AUDITORS

Messrs. KPMG, who acted as auditors of the Company, have resigned with effect from 15 August 2006 and Messrs. Deloitte Touche Tohmatsu have been appointed as auditors of the Company with effect from 15 August 2006 to fill the casual vacancy until the conclusion of the next AGM. A resolution will be submitted to the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

The financial statements for the year were audited by Deloitte Touche Tohmatsu who will retire at the conclusion of the forthcoming AGM and, being eligible, will offer themselves for re-appointment.

By Order of the Board of Directors of  
**New Capital International Investment Limited**

**Liu Xiao Guang**  
*Chairman*

Hong Kong, 13 April 2007