



Report of the Directors

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

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in Notes 20, 21 and 22 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the consolidated financial statements.

RESULTS

The results for the year are set out in the consolidated income statement on page 20.

DIVIDEND

An interim dividend of HK\$0.02 (2005: Nil) per ordinary share, totalling HK\$23,877,000 (2005: Nil) was paid to shareholders of the Company on 31st October 2006.

The Board of Directors recommends the payment of a final dividend of HK\$0.005 (2005: HK\$0.015) per ordinary share, totalling HK\$5,969,000 (2005: HK\$17,758,000), which together with the interim dividend amounting to a total of HK\$29,846,000 (2005: HK\$17,758,000).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 34 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$38,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2006, calculated pursuant to section 79B of the Hong Kong Companies Ordinance, amounted to HK\$281,937,000 (2005: HK\$47,214,000).

SUBSEQUENT EVENTS

Details of the subsequent events of the Company are set out in Note 41 to the consolidated financial statements.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2006.

SHARE OPTIONS

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the "Scheme") to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares in the Company.

The maximum number of shares subject to the Scheme and any other schemes of the Company (including without limitation to the 1994 Share Option Scheme) does not in aggregate exceed 30 percent of the shares in issue of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not exceed 113,132,370 shares, being 10 percent of shares in issue as at the date of approval of the Scheme by the Shareholders in the Annual General Meeting. The total number of options available for issue under the Scheme as at 31st December 2006 is 38,260,370 shares, representing approximately 3.22% of ordinary shares in issue of the Company as of that date.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company for the time being.

The consideration for the grant of options is HK\$1.00. The Scheme participant is entitled to subscribe for shares during such period as may be determined by the Directors (which shall be less than 10 years from the date of the grant of the relevant option and commences six months after the date of grant) at the price to be determined by the Board of Directors but not less than the highest of the nominal value of the shares, the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted and the official closing price of the shares on the Stock Exchange on the date of grant.



REPORT OF THE DIRECTORS

Details of share options remain outstanding as at 31st December 2006 are as follows:–

	Options held at 1st January 2006	Options granted during year (Note a)	Options exercised during year (Note b)	Options lapsed during year	Options held at 31st December 2006	Exercise price HK\$	Date of grant	Exercise period
Directors:–								
Lao Yuan Yi	5,503,900	–	(5,503,900)	–	–	0.318	11/07/1996	11/01/1997-15/07/2006
	10,000,000	–	–	–	10,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
	22,842,000	–	–	–	22,842,000	0.564	30/11/2005	30/05/2006-11/12/2015
Xin Shulin, Steve	838,640	–	(838,640)	–	–	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	–	–	–	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	4,464,000	–	–	–	4,464,000	0.283	08/07/1998	08/01/1999-15/07/2008
	11,810,000	–	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015
Yeung Wai Kin	1,494,304	–	(1,494,304)	–	–	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	–	–	–	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	6,980,000	–	–	–	6,980,000	0.283	08/07/1998	08/01/1999-15/07/2008
	11,810,000	–	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015
Hu Yi Ming	1,000,000	–	–	–	1,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
	1,300,000	–	–	–	1,300,000	0.283	08/07/1998	08/01/1999-15/07/2008
Employees								
	4,002,600	–	(4,000,000)	(2,600)	–	0.318	11/07/1996	11/01/1997-15/07/2006
	950,000	–	–	–	950,000	0.816	01/11/1997	01/05/1998-12/11/2007
	1,804,000	–	–	(800,000)	1,004,000	0.283	08/07/1998	08/01/1999-15/07/2008
	11,810,000	–	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015
	–	17,850,000	–	(1,250,000)	16,600,000	0.680	03/03/2006	03/03/2008-02/03/2016
	<u>101,609,444</u>	<u>17,850,000</u>	<u>(11,836,844)</u>	<u>(2,052,600)</u>	<u>105,570,000</u>			

REPORT OF THE DIRECTORS

Notes:

- a. During the period, 17,850,000 share options were granted under the Scheme with an exercise price of HK\$0.680 per share. The related weighted average closing price immediately before the date on which the share options were granted was HK\$0.670 per share. The fair value of share options granted is estimated using the Black-Scholes valuation model based on the following assumptions:

Date of grant	3rd March 2006
Fair value per share option	HK\$0.280
Share closing price	HK\$0.670
Exercise price	HK\$0.680
Expected volatility*	42.39%
Annual risk-free interest rate**	4.30%
Life of options	8 years
Dividend yield***	2.52%
Fair value of total share options granted during the period – Employees	HK\$5,002,000

* Expressed as annualised volatility for 1 year immediately preceding the grant date

** Based on yield of 10-year Exchange Fund Notes

*** Expressed as annualised dividend of the most recent financial year and the closing price on grant date

The fair value calculated is inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of a share option varies with difference variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of a share option.

- b. Exercise dates for options held by Mr. Lao, Mr. Xin, Mr. Yeung and 3 general employees were 6th July 2006, 15th May 2006, 6th July 2006, 22nd May 2006, 22nd June 2006 and 5th July 2006 respectively. At that dates before the options were exercised, the market value per share were HK\$0.70, HK\$0.81, HK\$0.70, HK\$0.78, HK\$0.66 and HK\$0.73 respectively.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Mr. LAO Yuan Yi

Mr. XIN Shulin, Steve

Mr. YEUNG Wai Kin

Mr. HU Yi Ming

* Mr. KWOK Lam Kwong, Larry, J.P.

** Prof. WOO Chia Wei

** Mr. LIU Ji

** Mr. YU Qi Hao

* Mr. Kwok Lam Kwong, Larry, J.P. is a non-executive director of the Company.

** Prof. Woo Chia Wei, Mr. Liu Ji and Mr. Yu Qi Hao are independent non-executive directors and were appointed for a term of two years.

Mr. LAO Yuan Yi and Mr. XIN Shulin, Steve retire in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election.



REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company which cannot be terminated by the Company within one year without payment of compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors of the Company and senior management of the Group are set out as follows (with age in brackets):–

Mr. Lao Yuan-Yi (61). Chairman and Managing Director, Joined the Company in 1993. Currently Chairman of China Assets (Holdings) Ltd, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Previously senior policy researcher at China's National Research Centre for Science & Technology and Social Development, and worked at the PRC State Science & Technology Commission, Ministry of Communications of the People's Republic of China and the PRC Railway Ministry. Mr. Lao graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

Mr. Xin Shu-Lin, Steve (53). Appointed as Director of the Company in 1998. He joined the Company in 1994 as Executive Vice President in charge of direct investment. Previously Mr. Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992.

Mr. Yeung Wai-Kin (45). Appointed as Director of the Company in 1998. He is also Chief Financial Officer and Company Secretary of the Company. Mr. Yeung joined the Company in 1993 and has over 20 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited, the Company's associated company, and RBI Holdings Limited which are listed in The Stock Exchange of Hong Kong Limited. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

Mr. Hu Yi-Ming (44). Appointed as Director of the Company in 1998. He joined the Group in 1996 as Managing Director of its Assets Management Division. Prior to joining the Group, Mr. Hu was Vice President – Foreign Exchange of Banque Paribas, Hong Kong Branch. Mr. Hu graduated with a Bachelor of Economics degree from the Shanghai University of Finance and Economics. After his graduation, he gained extensive experience in money market dealing from several reputable corporations in PRC, USA and Singapore.

Mr. Kwok Lam-Kwong, Larry, J.P. (51). Appointed as Independent Non-executive Director in 1994 and has been re-designated to Non-executive Director of the Company with effect from 17th March 2005. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as an accountant in Hong Kong, Australia and the United Kingdom. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He is currently the Vice-Chairman of the Consumer Council, a member of the Hospital Governing Committee of the Princess Margaret Hospital/Kwai Chung Hospital and a member of the Traffic Accident Victims Assistance Advisory Committee. He is also a member of the Political Consultative Committee of Guangxi in the People's Republic of China.

REPORT OF THE DIRECTORS

Professor Woo Chia-Wei (69). Appointed as Independent Non-executive Director in 1993. Currently Senior Advisor to the Shui On Holdings Limited. President Emeritus of the Hong Kong University of Science and Technology. Previously President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of several companies including Shanghai Industrial Holdings Limited and Lenovo Holdings Limited. He serves on the Commission on Strategic Development of HKSAR, and the Chinese People's Political Consultative Conference.

Mr. Liu Ji (71). Appointed as Independent Non-executive Director on 11th March 2004. Mr. Liu is the Honorary President of China Europe International Business School in Shanghai. He holds the posts of Deputy Chairman, Research Fellow and Member of the Academic Board, The Chinese Academy of Social Sciences, and Executive President of China Europe International Business School since 1993. Mr. Liu graduated from the Department of Power Mechanical Engineering, Qinghua University, Beijing.

Mr. Yu Qi-Hao (60). Appointed as Independent Non-executive Director on 17th March 2005. Mr. Yu is a certified public accountant, PRC. He graduated from Shanghai University of Finance and Economics. From 1981 to 1991, Mr. Yu worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as the assistant president of Shanghai Industrial Investment (Holdings) Company Limited. Mr. Yu also worked as an executive director of Shenyin Wanguo (H.K.) Limited from 1995 to 1997 and a non-executive director from 1997 to 1998. And during the period from 2001 to 2006, Mr. Yu worked as advisor of Deloitte Touche Tohmatsu CPA Ltd in Shanghai.

Mr. Mo Siu-Lun, Henry (44). Joined the Company in January 2000 as Chief Information Officer of the Group. Mr. Mo has over 23 years of managerial and technical experience in the information technology, manufacturing and marketing communication sector. Prior to joining the Group, he had held various management positions with major public listed companies. He obtained his Postgraduate Diploma in Engineering Management from City University of Hong Kong, a Master's Degree in Manufacturing Systems Engineering from Warwick University of the United Kingdom and a Master's Degree in Electronic Business from City University of Hong Kong.

Mr. Yu Tsz Chau, James (43). Mr. Yu joined our Group as Vice President of First Shanghai Financial Holding Limited in January 2005 and then promoted as Managing Director in July 2006. Mr. Yu has more than 10 years solid experience in investment banking and securities industry, and is especially familiar with the investment market of Chinese Mainland. Mr. Yu graduated from Wuhan University with a Master's Degree in Economics in 1988 and was a lecturer in the Management School of Wuhan University.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries 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.



REPORT OF THE DIRECTORS

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

At 31st December 2006, the interests of each director and chief executive in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of SFO or as notified to the Company were as follows:–

(a) Ordinary shares of HK\$0.2 each in the Company:

Name of directors		Number of shares and underlying shares held			% of the issued share capital of the Company
		Personal interests	Corporate interests	Total	
Mr. Lao Yuan Yi	Long position	90,216,000	72,952,000	163,168,000	13.67%
Mr. Xin Shulin, Steve	Long position	19,612,640	–	19,612,640	1.64%
Mr. Yeung Wai Kin	Long position	22,784,304	–	22,784,304	1.91%
Mr. Hu Yi Ming	Long position	2,300,000	–	2,300,000	0.19%

* No directors and chief executives has any interest of short positions in shares or underlying shares of the Company.

(b) Options in respect of shares in an associated corporation:

Name of Directors	Associated corporation	Number of options held			% of the issued share capital of the associated corporation
		Personal interests		Total	
Mr. Lao Yuan Yi	China Assets (Holdings) Ltd	725,000	Long position	725,000	0.96%
Mr. Yeung Wai Kin	China Assets (Holdings) Ltd	700,000	Long position	700,000	0.92%

The above share options were granted under the share option scheme of China Assets (Holdings) Limited adopted on 19th May 2004.

Saved as disclosed above, at no time during the year, the directors and chief executives had any interest in shares, underlying shares and debentures of the Company and its associated corporation required to be disclosed pursuant to the SFO.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2006, the Company had been notified of the following substantial shareholders' interests, 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.

Ordinary shares of HK\$0.2 each in the Company:

		Corporate Interests	Percentage
China Assets (Holdings) Limited ("China Assets")	Long position	248,249,300	20.79%

China Assets is a Hong Kong listed company, which is also an associated company of the Group. Apart from the above, so far as the Directors are aware, there are no parties which were, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital of the Company as at 31st December 2006.

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.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are both less than 30% for 2006 and 2005.

CONNECTED TRANSACTION

For the year ended 31st December 2006, the Company did not have any connected transactions which need to be disclosed.

FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:–

	2006	Restated 2005	Restated 2004	Restated 2003	Restated 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	2,092,105	1,924,210	1,609,247	1,730,671	1,226,011
Total liabilities (net of minority interests)	396,434	510,750	220,756	417,516	43,687
Total net assets	1,695,671	1,413,460	1,388,491	1,313,155	1,182,324
Turnover	1,319,289	1,148,462	498,190	153,408	91,066
Profit attributable to shareholders	236,573	76,320	80,955	93,787	49,979
Earnings per share					
– basic	19.91 cents	6.49 cents	6.90 cents	7.99 cents	4.41 cents
– fully diluted	19.53 cents	6.40 cents	6.78 cents	7.88 cents	4.36 cents



REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998. The Audit Committee comprises the non-executive Director, Mr. Kwok Lam Kwong, Larry, J.P. and the three independent non-executive Directors, Prof. Woo Chia Wei, Mr. Liu Ji and Mr. Yu Qi Hao. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. Three meetings were held during the current financial year.

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.

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LAO Yuan Yi

Chairman

Hong Kong, 20th April 2007