

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") present the annual report and the audited consolidated financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 54.

The Directors do not recommend the payment of a dividend (2005: Nil).

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company had no reserves available for distribution to shareholders at 31 December 2006 (2005: HK\$233,326,000).

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2006 is set out on page 6.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

DIRECTORS

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

Executive Directors:

Mr. Chan Wing Kin, Alfred (<i>Chairman</i>)	(appointed on 1 March 2007)
Mr. Wong Wai Yee, Peter (<i>Chief Executive Officer</i>)	(appointed on 1 March 2007)
Mr. Chen Wei	
Mr. Ho Hon Ming, John (<i>Company Secretary</i>)	(appointed on 1 March 2007)
Mr. Kwan Yuk Choi, James	(appointed on 1 March 2007)
Mr. Ou Yaping	
Mr. Shen Lian Jin	
Mr. Tang Yui Man Francis	(resigned as executive Director on 1 March 2007)
(<i>alternate director to Mr. Ou Yaping</i>)	(appointed as alternate Director to Mr. Ou Yaping on 1 March 2007)
Mr. Li Fujun	(resigned on 1 March 2007)
Mr. Zhang Keyu	(resigned on 1 March 2007)

Non-executive Directors:

Mr. Fok Kin-ning, Canning	(resigned on 8 August 2006)
Mr. To Chi Keung, Simon	(ceased to act as alternate Director to Mr. Fok Kin-ning, Canning on 8 August 2006)
	(appointed as non-executive Director on 8 August 2006 and retired on 15 February 2007)

Independent non-executive Directors:

Mr. Cheung Hon Kit	
Mr. Li Xiao Ru	
Mr. Zhang Ke	(appointed on 4 July 2006)
Mr. Ge Ming	(resigned on 4 July 2006)

In accordance with the Article 95 of the articles of association of the Company (the "Articles of Association"), Messrs. Chan Wing Kin, Alfred, Wong Wai Yee, Peter, Kwan Yuk Choi, James and Ho Hon Ming, John shall retire from office at the forthcoming annual general meeting of the Company ("AGM") and, being eligible, would offer themselves for re-election.

In accordance with the Article 112 of the Articles of Association, Messrs. Chen Wei, Shen Lian Jin, Cheung Hon Kit and Li Xiao Ru shall retire from office by rotation at the forthcoming AGM. Mr. Li Xiao Ru confirmed that he shall not seek for re-election at the forthcoming AGM. Mr. Chen Wei, Mr. Shen Lian Jin and Mr. Cheung Hon Kit, being eligible, would offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company considers all of independent non-executive Directors to be independent.

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Each of the independent non-executive Director was appointed for a period commencing from his appointment date and subject to retirement by rotation at the annual general meeting.

None of the Directors proposed for re-election at the forthcoming AGM 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' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS

At 31 December 2006, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions or short positions in Shares and underlying Shares

Name of Directors	Capacity	Interest in Shares		Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's issued share capital as at 31.12.2006
		Personal interest	Corporate interest				
Chen Wei	Beneficial owner	3,600,000	-	3,600,000	6,600,000	10,200,000	1.06%
Cheung Hon Kit	Beneficial owner	-	-	-	800,000	800,000	0.08%
Li Fujun	Beneficial owner	2,600,000	-	2,600,000	-	2,600,000	0.27%
Li Xiao Ru	Beneficial owner	-	-	-	800,000	800,000	0.08%
Ou Yaping	Beneficial owner and interest in controlled corporations	-	575,806,587 (Note)	575,806,587	3,600,000	579,406,587	60.46%
Shen Lian Jin	Beneficial owner	-	-	-	2,300,000	2,300,000	0.24%
Tang Yui Man Francis	Beneficial owner	4,400,000	-	4,400,000	3,000,000	7,400,000	0.77%
Zhang Keyu	Beneficial owner	-	-	-	2,000,000	2,000,000	0.21%

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Note: The 575,806,587 Shares represent the aggregate of (i) 401,233,462 Shares held by Kenson Investment Limited (“Kenson”) and 169,491,525 Shares held by Supreme All Investments Limited (“Supreme All”), both wholly-owned subsidiaries of Enerchina; and (ii) 5,081,600 Shares held by Asia Pacific Promotion Limited (“Asia Pacific”). As approximately 45.46% of the issued share capital of Enerchina was held by Sinolink and approximately 48.35% interest of Sinolink was held by Asia Pacific as at 31 December 2006 and Mr. Ou is the sole beneficial owner of Asia Pacific, Mr. Ou is deemed under the SFO to be interested in such 575,806,587 Shares.

Details of the Directors’ interests in share options granted by the Company are set out under the heading “Directors’ Rights to Acquire Shares”.

(b) Directors’ interests or short positions in shares and underlying shares in associated corporations

Name of Directors	Name of associated corporations	Capacity	Interest in shares			Total interest in shares	Interest in underlying shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the associated corporation as at 31.12.2006
			Personal interest	Corporate interest	Family interest				
Chen Wei	Sinolink	Beneficial owner	3,600,000	-	-	3,600,000	8,400,000	12,000,000	0.42%
Ou Yaping	Asia Pacific	Beneficial owner	2	-	-	2	-	2	100.00%
	Enerchina	Beneficial owner, interest in controlled corporations and joint interest	-	2,882,792,295 (Note 1)	3,237,960	2,886,030,255	2,288,000	2,888,318,255	59.80%
	Sinolink	Interest in controlled corporations and joint interest	-	1,384,514,000 (Note 2)	6,475,920	1,390,989,920	-	1,390,989,920	48.57%
Shen Lian Jin	Sinolink	Beneficial owner	900,000	-	-	900,000	1,200,000	2,100,000	0.07%
Tang Yui Man Francis	Enerchina	Beneficial owner	-	-	-	-	22,880,000	22,880,000	0.47%
	Sinolink	Beneficial owner	5,700,000	-	-	5,700,000	13,300,000	19,000,000	0.66%
Zhang Keyu	Sinolink	Beneficial owner	-	-	-	-	2,000,000	2,000,000	0.07%

Notes:

- The 2,882,792,295 shares in Enerchina represent the aggregate of: (i) 1,971,690,942 shares held by Sinolink (Mr. Ou through his wholly-owned company, Asia Pacific, held approximately 48.35% of the existing issued share capital of Sinolink as at 31 December 2006 and is therefore deemed to be interested in all shares in which Sinolink is interested); (ii) the 223,990,353 shares held by Smart Orient Investments Limited (“Smart Orient”), a wholly-owned subsidiary of Sinolink; and (iii) 687,111,000 shares held by Asia Pacific directly. Mr. Ou is deemed to be interested in these 2,882,792,295 shares of Enerchina under the SFO.
- These shares are held by Asia Pacific, a company incorporated in the BVI, which is legally and beneficially owned by Mr. Ou Yaping.

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Details of the Directors' interests in share options granted by the associated corporations are set out under the heading "Directors' Rights to Acquire Shares".

DIRECTORS' RIGHTS TO ACQUIRE SHARES

(a) Interest in options to subscribe for Shares

Pursuant to the Company's share option schemes, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 31 December 2006 were as follows:

Name of Directors	Date of grant	Exercise period	Exercise price HK\$	Number of Shares subject to outstanding options as at 1.1.2006	Number of Shares subject to outstanding options as at 31.12.2006	Approximate percentage of the Company's issued share capital as at 31.12.2006
Chen Wei	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	1,800,000	0.19%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	1,800,000	0.19%
	13.11.2001	13.11.2002 – 13.02.2007	0.940	1,440,000	–	–
	19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	900,000	0.09%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	900,000	0.09%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	1,200,000	0.13%
Cheung Hon Kit	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	320,000	0.03%
Li Fujun	04.04.2001	01.01.2003 – 03.04.2011	0.475	920,000	–	–
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,200,000	–	–
	13.11.2001	13.11.2002 – 13.02.2007	0.940	480,000	–	–
Li Xiao Ru	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	320,000	0.03%
Ou Yaping	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	1,800,000	0.19%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	1,800,000	0.19%
Shen Lian Jin	04.04.2001	01.01.2004 – 03.04.2011	0.475	300,000	300,000	0.03%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	600,000	600,000	0.06%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	600,000	600,000	0.06%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	800,000	800,000	0.08%
Tang Yui Man Francis	13.11.2001	13.11.2002 – 13.02.2007	0.940	960,000	–	–
	19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	900,000	0.09%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	900,000	0.09%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	1,200,000	0.13%
Zhang Keyu	19.11.2004	31.12.2005 – 30.03.2011	3.500	600,000	600,000	0.06%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	600,000	600,000	0.06%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	800,000	800,000	0.08%

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Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, 5,000,000 options were exercised by the Directors. 800,000 options held by a resigned director Mr. Ge Ming were lapsed. No option was granted to the Directors and no options held by the existing Directors were lapsed or cancelled.
3. These options represent personal interest held by the Directors as beneficial owners.

(b) Interest in options to subscribe for shares of associated corporations

Name of Directors	Name of associated corporations	Date of grant	Exercise period	Exercise price HK\$	Number of shares subject to outstanding options at 1.1.2006	Number of shares subject to outstanding options as at 31.12.2006	Approximate	
							percentage of the issued share capital of the associated corporations at 31.12.2006	
Chen Wei	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	3,600,000	-	-	
		13.01.2005	30.06.2006 – 24.05.2012	1.126	3,600,000	3,600,000	0.13%	
		13.01.2005	31.12.2006 – 24.05.2012	1.126	4,800,000	4,800,000	0.17%	
Ou Yaping	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000	2,288,000	0.05%	
Shen Lian Jin	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	900,000	-	-	
		13.01.2005	30.06.2006 – 24.05.2012	1.126	900,000	-	-	
		13.01.2005	31.12.2006 – 24.05.2012	1.126	1,200,000	1,200,000	0.04%	
Tang Yui Man Francis	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	22,880,000	22,880,000	0.47%	
		Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	5,700,000	-	-
			13.01.2005	30.06.2006 – 24.05.2012	1.126	5,700,000	5,700,000	0.20%
Zhang Keyu	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	600,000	600,000	0.02%	
		13.01.2005	30.06.2006 – 24.05.2012	1.126	600,000	600,000	0.02%	
		13.01.2005	31.12.2006 – 24.05.2012	1.126	800,000	800,000	0.03%	

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The options represent personal interests held by the Directors as beneficial owners.

Save as disclosed above, at no time during the year, the Directors, chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (warrants or debentures of the Company, if applicable) or any of its associated corporations required to be disclosed pursuant to the SFO.

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SHARE OPTION SCHEMES OF THE COMPANY

(a) Pre-GEM Share Option Scheme

The Company approved a pre-GEM listing share option scheme (the “Pre-GEM Scheme”) by resolutions of sole shareholder of the Company dated 4 April 2001. The purpose of the Pre-GEM Scheme was to recognize the contribution of certain Directors and employees of members of the Group and members of the Sinolink group to the growth of the Group and/or to the listing of the Shares on GEM Board.

At 31 December 2006, the outstanding number of Shares in respect of which options had been granted under the Pre-GEM Scheme was 9,260,000 (2005: 11,970,000), representing 0.53% (2005: 1.27%) of the existing share capital of the Company as at the date of this annual report.

Share options were granted under the Pre-GEM Scheme in 2001 in consideration of HK\$1.00 per grant, at an exercise price of HK\$0.57, being the issue price of the Shares on listing on GEM Board. The exercise price was subsequently adjusted to HK\$0.475 upon capitalization of Shares in 2002. 50% of options under the Pre-GEM Scheme are exercisable from 1 January 2003 with the remaining 50% exercisable from 1 January 2004. The options under the Pre-GEM Scheme are exercisable on a cumulative basis until the expiry date on 3 April 2011. The options under the Pre-GEM Scheme were granted to recognize the past and present contributions of the grantees to the Group.

The Pre-GEM Scheme ended on the date on which dealings in the Shares commenced on GEM Board (i.e. 20 April 2001), and no further options would be offered or granted after that date. The provision of the Pre-GEM Scheme shall remain in full force and effect.

(b) 2001 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the sole shareholder of the Company dated 4 April 2001 (the “2001 GEM Scheme”), the Company might grant options to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for Shares. The exercise price of the share option would be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2001 GEM Scheme remained in force for a period of 10 years commencing on 4 April 2001.

The share options granted under the 2001 GEM Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be less than 3 years and not more than 10 years from the date of grant.

At 31 December 2006, the outstanding number of shares in respect of which options had been granted under the 2001 GEM Scheme was 21,440,000 (2005: 27,999,000), representing 1.22% (2005: 2.97%) of the existing share capital of the Company as at the date of this annual report.

Options granted under the 2001 GEM Scheme should be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per grant.

The total number of Shares in respect of which options might be granted under the 2001 GEM Scheme was not permitted to exceed 10% of the Shares in issue at any point in time without prior approval from the Company's shareholders. No option might be granted to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of Shares issued and issuable under all the options which might be granted under the 2001 GEM Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

The 2005 GEM Scheme has replaced the 2001 GEM Scheme and there will be no options granted under the 2001 GEM Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the 2001 GEM Scheme shall remain in full force and effect.

(c) 2005 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the Company's shareholders at the annual general meeting held on 26 April 2005 (the "2005 GEM Scheme") and approved by Sinolink pursuant to an ordinary resolution passed at the annual general meeting of Sinolink held on 18 May 2005, the Company might grant options to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the Shares. The exercise price of the share option would be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2005 GEM Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005.

The share options under the 2005 GEM Scheme are exercisable at any time for a period to be determined by the Directors, which shall not more than 10 years after the date of grant.

At 31 December 2006, no option was granted under the 2005 GEM Scheme.

Options granted under the 2005 GEM Scheme should be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per grant.

The total number of Shares in respect of which options might be granted under the 2005 GEM Scheme was not permitted to exceed 10% of the Shares in issue at the date of approval of the 2005 GEM Scheme without prior approval from the Company's shareholders. No option might be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which might be granted under the 2005 GEM Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

2005 GEM Scheme ended on the date on which dealings in the Shares commenced on Main Board (i.e. 8 December 2005), and no further options would be offered or granted after that date.

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(d) 2005 Main Board Share Option Scheme

Pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 (“2005 Main Board Scheme”) and approved by the shareholders of Enerchina and Sinolink pursuant to an ordinary resolution passed at respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for Shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

2005 Main Board Scheme will remain in force for a period of 10 years commencing on 28 November 2005.

The share options under 2005 Main Board Scheme are exercisable at any time for a period to be determined by the Directors, which shall not more than 10 years after the date of grant.

At 31 December 2006, the outstanding number of shares in respect of which options had been granted under 2005 Main Board Scheme was 5,000,000 (2005: Nil), representing 0.28% (2005: Nil) of the existing share capital of the Company as at the date of this annual report.

Options granted under 2005 Main Board Scheme must be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per grant.

The total number of Shares in respect of which options may be granted under 2005 Main Board Scheme is not permitted to exceed 10% of the Shares in issue at the date of approval of 2005 Main Board Scheme without prior approval from the Company’s shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under 2005 Main Board Scheme or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

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Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise Price HK\$
Pre-GEM Scheme:			
Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.475
	04.04.2001	01.01.2004 – 03.04.2011	0.475
2001 GEM Scheme:			
2001 GEM Options	13.11.2001	13.02.2002 – 13.02.2007	0.940
	13.11.2001	13.05.2002 – 13.02.2007	0.940
	13.11.2001	13.11.2002 – 13.02.2007	0.940
2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.500
	19.11.2004	31.12.2006 – 30.03.2011	3.500
	19.11.2004	31.12.2007 – 30.03.2011	3.500
2005 Main Board Scheme:			
2006 Main Board Options	03.10.2006	04.10.2007 – 27.11.2015	2.810
	03.10.2006	04.04.2008 – 27.11.2015	2.810
	03.10.2006	04.10.2008 – 27.11.2015	2.810

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The following table discloses movements in the share options during the year:

		Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Resigned as director during the year	Lapsed during the year	Outstanding at 31.12.2006
Category 1: Directors							
Chen Wei	Pre-GEM Options	3,600,000	-	-	-	-	3,600,000
	2001 GEM Options	1,440,000	-	(1,440,000)	-	-	-
	2004 GEM Options	3,000,000	-	-	-	-	3,000,000
Cheung Hon Kit	2004 GEM Options	800,000	-	-	-	-	800,000
Ge Ming	2004 GEM Options	800,000	-	-	(800,000)	-	-
Li Fujun	Pre-GEM Options	2,120,000	-	(2,120,000)	-	-	-
	2001 GEM Options	480,000	-	(480,000)	-	-	-
Li Xiao Ru	2004 GEM Options	800,000	-	-	-	-	800,000
Ou Yaping	Pre-GEM Options	3,600,000	-	-	-	-	3,600,000
Shen Lian Jin	Pre-GEM Options	300,000	-	-	-	-	300,000
	2004 GEM Options	2,000,000	-	-	-	-	2,000,000
Tang Yui Man	2001 GEM Options	960,000	-	(960,000)	-	-	-
Francis	2004 GEM Options	3,000,000	-	-	-	-	3,000,000
Zhang Keyu	2004 GEM Options	2,000,000	-	-	-	-	2,000,000
Total for Directors		24,900,000	-	(5,000,000)	(800,000)	-	19,100,000
Category 2: Other participate	2004 GEM Options	-	-	-	800,000	(800,000)	-
Category 3: Employees							
	Pre-GEM Options	2,350,000	-	(590,000)	-	-	1,760,000
	2001 GEM Options	3,919,000	-	(1,649,000)	-	(300,000)	1,970,000
	2004 GEM Options	8,800,000	-	(930,000)	-	-	7,870,000
	2006 Main Board Options	-	5,000,000	-	-	-	5,000,000
Total for Employees		15,069,000	5,000,000	(3,169,000)	-	(300,000)	16,600,000
All categories		<u>39,969,000</u>	<u>5,000,000</u>	<u>(8,169,000)</u>	<u>-</u>	<u>(1,100,000)</u>	<u>35,700,000</u>

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Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The closing price of the Shares immediately before 3 October 2006, the date of grant of 2006 Main Board Options, was HK\$2.66.
3. The weighted average closing price at the date of exercise for share options during the year was at a range of HK\$3.623 to HK\$4.019.
4. During the year, 5,000,000 options were granted under 2005 Main Board Scheme.
5. During the year, 8,169,000 options were exercised and 1,100,000 options were lapsed under the share options schemes. No options were cancelled under the share option schemes.
6. The fair value of the options granted under 2005 Main Board Scheme in the current period measured at the date of grant (3 October 2006) totalled approximately HK\$4,716,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected volatility:	30.03% based on historical volatility
Expected dividend yield:	0% based on historical dividends
Expected life:	5 years
Risk free interest rate:	3.961% being the approximate yield of 10-year Exchange Fund Note on the grant date

The Black-Scholes options pricing model was developed to estimate the fair value of traded options which do not have vesting restrictions and are fully transferable. This pricing model requires the input of highly subjective assumptions including the volatility of the share price. As the Company's options are different from traded options and because changes in subjective input assumptions can materially affect the fair value estimate in the directors opinion the model does not necessarily provide a reliable single measure of the fair value of the share options.

All the options forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

Based on the closing price of Shares on the date of grant and the above assumptions, the estimated fair value under the options granted during the year was approximately HK\$0.94 per option share.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 30 to the financial statements, there are no contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a Director 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

COMPETING BUSINESS

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. Chan Wing Kin, Alfred, the Chairman of the Company, is the Managing Director of HKCG and Mr. Kwan Yuk Choi, James, an executive director of the Company, is an executive director of HKCG.

HKCG and its subsidiaries ("HKCG Group") are principally engaged in the production, distribution and marketing of gas and related activities in Hong Kong and in the PRC. Although some of the businesses carried out by the HKCG Group are similar to the businesses carried out by the Group, they are of different scale and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group do not compete directly with the businesses of the Group.

Save as disclosed above, none of the Directors had any interest in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly with the Group's business.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors, the following shareholders (other than the Directors or chief executives of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:–

Long positions and short positions in Shares and underlying Shares in the Company

Name of Shareholders	Capacity	Aggregate interest in Shares/ (short positions)	Approximate percentage of the Company's issued share capital as at 31.12.2006
Lee Chau Kee	Interest of controlled corporations	772,911,729 (Note 1)	80.65%
Rimmer (Cayman) Limited	Trustee	772,911,729 (Note 1)	80.65%
Riddick (Cayman) Limited	Trustee	772,911,729 (Note 1)	80.65%
Hopkins (Cayman) Limited	Interest of controlled corporations	772,911,729 (Note 1)	80.65%
Henderson Development Limited	Interest of controlled corporations	772,911,729 (Note 1)	80.65%

REPORT OF THE DIRECTORS

Name of Shareholders	Capacity	Aggregate interest in Shares/ (short positions)	Approximate percentage of the Company's issued share capital as at 31.12.2006
Henderson Land Development Company Limited	Interest of controlled corporations	772,911,729 (Note 1)	80.65%
Kingslee S.A.	Interest of controlled corporations	772,911,729 (Note 1)	80.65%
Henderson Investment Limited	Interest of controlled corporations	772,911,729 (Note 1)	80.65%
HKCG	Interest of controlled corporations	772,911,729 (Note 1)	80.65%
Towngas International Company Limited	Interest of controlled corporations	772,911,729 (Note 1)	80.65%
HK&CG (China)	Beneficial owner	772,911,729 (Note 1)	80.65%
Asia Pacific	Interest of controlled corporations and beneficial owner	575,806,587 (Note 2)	60.09%
Sinolink	Interest of controlled corporations	570,724,987 (Note 2)	59.56%
Enerchina	Interest of controlled corporations	570,724,987 (Note 2)	59.56%
Kenson	Beneficial owner	401,233,462 (Note 2)	41.87%
Value Partners Limited	Investment manager	100,906,538 (Note 3)	10.53%
Cheah Cheng Hye	Interest of controlled corporation	100,906,538 (Note 3)	10.53%
Deutsche Bank Aktiengesellschaft	Beneficial owner and person having a security interest in Shares	61,757,901 (4,500,000)	6.44% (0.47%)

REPORT OF THE DIRECTORS

Notes:

1. These 772,911,729 Shares are held by HK&CG(China). As HK&CG(China) was a wholly-owned subsidiary of Towngas International Company Limited, which in turn was wholly-owned subsidiary of HKCG, each of Towngas International Company Limited and HKCG was therefore taken to be interested in such 772,911,729 Shares by virtue of Part XV of the SFO.

Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins (Cayman) Limited ("Hopkins") as trustee of the Unit Trust owned all the issued ordinary shares of Henderson Development Limited ("HD"). HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of Henderson Land Development Company Limited ("HLD"). HLD through its subsidiaries (including Kingslee S.A.) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of Henderson Investment Limited ("HI") which in turn was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD, Kingslee S.A. and HI was therefore taken to be interested in the same 772,911,729 Shares deemed acquired by HK&CG(China) by virtue of Part XV of the SFO.

The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was therefore taken to be interested in the same 772,911,729 Shares as set out in above by virtue of Part XV of the SFO.

As at 31 December 2006, these 772,911,729 Shares had not yet been allotted and issued as the conditions had not been fulfilled according to the conditions stated in the sale and purchase agreement dated 4 December 2006 between the Company, HK&CG(China) and HKCG. However, these Shares regarded as the deemed interests and should be disclosed under Part XV of the SFO.

2. Enerchina is interested in the entire issued share capital of Kenson and Supreme All. Enerchina was owned as to approximately 45.46% by Sinolink as at 31 December 2006 and Sinolink was in turn owned as approximately 48.35% by Asia Pacific as at 31 December 2006. Therefore, by virtue of Part XV of the SFO, the 401,233,462 Shares and 169,491,525 Shares in which Kenson and Supreme All are interested duplicate with interest in Shares held by Enerchina, Sinolink and Asia Pacific. In addition, Asia Pacific is directly interested in 5,081,600 Shares, representing approximately 0.53% of the entire issued share capital of the Company. Mr. Ou is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by Kenson, Supreme All and Asia Pacific.
3. These 100,906,538 Shares are held by the funds under management by Value Partners Limited, a company which is held by 35.65% by Mr. Cheah Cheng Hye. Accordingly, Mr. Cheah Cheng Hye is deemed to be interested in these Shares.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Divisions 2 and 3 of Part XV of the SFO and the Listing Rules.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2006, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

CONNECTED TRANSACTION

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

DONATIONS

During the year the Group made charitable and other donations amounting to HK\$1,931,000.

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, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the turnover of the Group. The five largest suppliers of the Group in aggregate accounted for about 54.1% of its operating costs for the year. Purchases from the largest supplier accounted for about 36.2% of its operating costs.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on pro-rata basis to existing shareholders.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMOLUMENT POLICY

As at 31 December 2006, the Group had 7,988 employees, an increase of 4,170 from a year ago. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The emoluments of the Directors are determined and recommended by the remuneration committee of the Company and approved by the Directors, having regard to the Company's operating results, individual performance and comparable market statistics. No Director, or any of his associates, and executive, is involved in dealing his own remuneration.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes is set out in note 33 to the consolidated financial statements and under the heading "Share Option Schemes of the Company" in this report.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Company has an audit committee ("Audit Committee") which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors. The members of the Audit Committee are Messrs. Cheung Hon Kit, Li Xiao Ru and Zhang Ke. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The annual results of the Group for the year ended 31 December 2006 had been audited by the Company's auditors, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), and had been reviewed by the Audit Committee.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2006 have been audited by Deloitte. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Deloitte as auditors of the Company.

On behalf of the Board

Ho Hon Ming, John

Executive Director and Company Secretary

Hong Kong, 19 April 2007