



REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in corporate IT application services, financial information services and distance learning services.

SEGMENTAL INFORMATION

Particulars of the Group's turnover and segment information for the year are set out in notes 6 and 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 33.

The directors do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

COMPARATIVE FINANCIAL INFORMATION

The consolidated results and the assets and liabilities of the Group for the last five financial years, as extracted from the Group's published audited financial statements, whereas certain comparative figures have been reclassified to conform with current year presentation.

Results

| | Year ended 31 December 2006 HK\$'000 | Year ended 31 December 2005 HK\$'000 | Year ended 31 December 2004 HK\$'000 | Nine months ended 31 December 2003 HK\$'000 | Year ended 31 March 2003 HK\$'000 |
|--|---|---|---|---|--|
| Net (loss)/profit attributable to equity holders | (200,263) | 264,016 | 85,579 | 80,791 | 13,845 |

Assets and liabilities

| | 31 December 2006 HK\$'000 | 31 December 2005 HK\$'000 | 31 December 2004 HK\$'000 | 31 December 2003 HK\$'000 | 31 March 2003 HK\$'000 |
|-------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|------------------------------|
| Total assets | 2,177,009 | 2,276,691 | 5,572,107 | 5,914,912 | 5,929,736 |
| Total liabilities | (353,687) | (309,827) | (1,130,619) | (1,917,581) | (2,235,354) |
| Net assets | 1,823,322 | 1,966,864 | 4,441,488 | 3,997,331 | 3,694,382 |



REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's principal subsidiaries and associate as at 31 December 2006 are set out in notes 17 and 18, respectively, to the financial statements.

BANK LOANS AND OTHER BORROWINGS

The Group's bank loans and other borrowings as at 31 December 2006 are set out in note 33 and 34 to the financial statements.

SHARE CAPITAL AND SHARE PREMIUM

Details of the movements in share capital and share premium of the Company during the year are set out in notes 36 and 38 to the financial statements respectively.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 39 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the amount of the Company's reserves available for distribution was approximately HK\$136,062,000. In addition, the Company's share premium account with a balance of HK\$39,194,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's sales to the five largest customers and purchases from the five largest suppliers for the year ended 31 December 2006 accounted for less than 30% of the Group's total turnover and purchases respectively.

DIRECTORS' EMOLUMENTS

Details of directors' emoluments are set out in note 43 to the financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

PENSION COSTS

Details of retirement benefit plans in respect of the year are set out in note 48 to the financial statements.



REPORT OF THE DIRECTORS

DIRECTORS

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

| | |
|------------------------------------|---|
| Mr. YU Pun Hoi (<i>Chairman</i>) | |
| Ms. CHEN Dan | (appointed on 14 February 2006) |
| Mr. QIN Tian Xiang | (re-designated as executive director on 14 February 2006) |
| Mr. LUO Ning [#] | |
| Mr. LAM Bing Kwan [#] | |
| Mr. HUANG Yaowen* | (appointed on 14 February 2006) |
| Prof. JIANG Ping* | (appointed on 1 June 2006) |
| Mr. CHAN Lap Stanley* | |
| Mr. FUNG Wing Lap* | |
| Mr. ZHANG Hong Ren | (resigned on 1 April 2006) |

[#] Non-executive directors

* Independent non-executive directors

The Company has received annual confirmation from each of the existing independent non-executive directors confirming his independence to the Company pursuant to rule 3.13 of the Listing Rules and the Company considers that such directors are independent of the Company.

In accordance with article 87 of the Company's articles of association, Prof. Jiang Ping may hold office only until the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election at the forthcoming Annual General Meeting.

In accordance with article 94 of the Company's articles of association, Mr. Yu Pun Hoi, Mr. Lam Bing Kwan and Mr. Fung Wing Lap shall retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical Details of Directors

Executive Directors

Mr. YU Pun Hoi, aged 48, is the Chairman, and the chairman of executive committee of the Company. Mr. Yu was a director of the Company from October 1991 to October 1994, and re-joined the Board of the Company on 31 January 1997. Mr. Yu is also the chairman, controlling shareholder, and the chairman of executive committee of Nan Hai Corporation Limited ("Nan Hai"), the listed controlling shareholder of the Company. Mr. Yu is also a director of all the subsidiaries of the Company and Nan Hai.

Mr. Yu through his own establishment and acquisition has extensive experience in different nature of businesses including newspaper publisher, satellite broadcasting television station, information technology, and property investment and development.

The Company under Mr. Yu's leadership is focusing on four main areas of business – corporate IT applications, financial information services, distance learning, and culture and media.

Ms. CHEN Dan, aged 38, graduated from Beijing Finance & Trade College in 1991, and conferred a Bachelor degree in Trade & Economics. Ms. Chen is a qualified lawyer in China, and was working as an attorney prior to joining the Group in October 2000. Ms. Chen has been appointed as a director of CE Dongli, a subsidiary of the Company, since May 2004. On 14 February 2006, Ms. Chen joined the Board and was appointed as executive committee member and general manager of the Company. Ms. Chen is also an executive director, executive committee member of Nan Hai, and holds directorships in Xinnet, Chinese Dadi and Redflag Chinese 2000, major subsidiaries of the Company and Nan Hai.



REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Biographical Details of Directors (continued)

Executive Directors (continued)

Mr. QIN Tian Xiang, aged 41, graduated from the National University of Defense Technology, Electronics Technique Department. Mr. Qin has been in presidential and directorship positions in a number of corporations in the PRC and Hong Kong since 1994. Mr. Qin joined the Board in the role of independent non-executive director on 30 September 2004, and was then re-designated as an executive director and appointed as executive committee member of the Company on 14 February 2006. Mr. Qin is also an executive director, executive committee member and general manager of Nan Hai.

Non-executive Directors

Mr. LUO Ning, aged 48, is a director and assistant President of CITIC Group (a substantial shareholder of the Company), and holds various senior management positions in a number of subsidiaries, associated or related companies of CITIC Group. Mr. Luo is also a director of CITIC Guoan Information Industry Co., Ltd. whose A shares are listed on The Shenzhen Stock Exchange. Mr. Luo joined the Board of the Company on 5 October 1999.

Mr. LAM Bing Kwan, aged 57, graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. Mr. Lam had been in senior management positions in the banking and financial industry for more than 10 years before joining our Group. Mr. Lam joined the Board on 14 October 1991, and was re-designated as non-executive director on 2 April 2002. Mr. Lam is also a non-executive director of Nan Hai, and an independent non-executive director of Lai Sun Development Company Limited, Lai Fung Holdings Limited and eForce Holdings Limited.

Independent Non-executive Directors

Mr. HUANG Yaowen, aged 36, graduated from South West University of Politics and Laws in the PRC and was conferred a Bachelor degree in Laws in 1992. Mr. Huang obtained a degree of EMBA in China Europe International Business School, and also holds a Master of Laws from Central Parties School in the PRC. Mr. Huang is a registered attorney at law in the PRC and is the executive partner of Kai Wen Law Firm which is Chinese commercial law firms in the PRC. On 14 February 2006, Mr. Huang joined the Board and was appointed as chairman of audit committee and remuneration committee of the Company. Mr. Huang is also an independent non-executive director and chairman of audit committee and remuneration committee of Nan Hai.

Prof. JIANG Ping, aged 76, graduated from Moscow University with a Bachelor degree in Laws in 1956. Prof. Jiang is the lifetime professor of China University of Political Science and Law, and conducts lectures for doctoral degree class in civil and commercial laws. Prof. Jiang is the honorary president of China Comparative Law Research Centre; chairman of Beijing Arbitration Commission; vice-president of China Consumers' Association; and counsellor and member of committee of experts in China International Economic and Trade Arbitration Commission. On 1 June 2006, Prof. Jiang joined the Board and was appointed as member of audit committee and remuneration committee of the Company. Prof. Jiang is also an independent non-executive director and member of audit committee and remuneration committee of Nan Hai.

Mr. CHAN Lap Stanley, aged 52, graduated from medical school of Zhejiang University in 1983, and also holds a Master's degree in Psychology. Mr. Chan has been an Assistant Professor in Zhejiang University in the PRC, and a researcher and chief secretary of a Research Centre for Taiwan, Macau and Hong Kong in Zhejiang University since 1997. Mr. Chan is also a business consultant in Ningbo Free Trade Zone in Zhejiang. Mr. Chan joined the Board on 30 September 2004 and is also an audit committee member and remuneration committee member of the Company.

Mr. FUNG Wing Lap, aged 47, graduated from The Hong Kong Polytechnic University in 1992. Mr. Fung is a fellow member of Association of International Accountants, and a Certified Public Accountant (Practising) of Hong Kong Institute of Certified Public Accountants. Mr. Fung has been a partner of Fung Lau & Company, Certified Public Accountants, since October 2000. Mr. Fung joined the Board on 30 September 2004 and is also an audit committee member and remuneration committee member of the Company.



REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Biographical Details of Senior Management

Mr. YU Fan (aged 39)

Deputy General Manager – Business and Strategic Development

Sino-i Technology Limited

General Manager

CE Dongli Technology Group Company Limited

Mr. Yu joined the Group in May 2004, and worked in CE Dongli as Deputy General Manager, chiefly responsible for strategic planning, sales and marketing, and operations management for both the company and its branch offices. In August 2006, Mr. Yu was appointed as General Manager of CE Dongli. Prior to joining the Group, Mr. Yu worked in such large corporations as Founder Group and Hewlett Packard and has over 16 years' experience in IT industry.

Mr. Yu got a degree of Master of Business Administration from Peking University.

Ms. LIU Rong (aged 35)

Deputy General Manager – Media and Culture

Sino-i Technology Limited

Ms. Liu joined the Group as Corporate Affairs Manager in April 2002, involving the Group's corporate affairs, capital raising and investments, and mergers and acquisitions in China. In January 2006, Ms. Liu was appointed as General Manager – Internet Data Centre of the Company, responsible for Internet business management of the Group. Prior to joining the Group, Ms. Liu worked in Chinese government departments and law firms. Ms. Liu is a qualified lawyer in China.

Ms. Liu was graduated from the Law School of Anhui University in 1993, and obtained a degree of Bachelor of Laws.

Ms. Liu got her Master of Laws in 2002 conferred by the Law Institute of Chinese Academy of Social Science.

Dr. ZHANG Bin (aged 41)

Deputy General Manager – Technology Development

Sino-i Technology Limited

Dr. Zhang joined the Group in 1999. In March 2005, Dr. Zhang was appointed as Chief Technology Officer of the Company, responsible for the overall technical affairs, R&D, products maintenance and information-related work of the Group. Prior to joining the Group, Dr. Zhang worked in the positions of chief engineer and deputy general manager, responsible for development of communication systems. In 1996, Dr. Zhang was accredited by Commission of Science Technology and Industry for National Defence as "Senior Engineer".

Dr. Zhang was graduated from the Computer Faculty of The University of Defence Technology in 1994, and awarded a doctorate.

Ms. SHUM Mei Han (aged 41)

Qualified Accountant

Sino-i Technology Limited

Ms. Shum joined the Group in 1989, responsible for the Group's accounting and financial control functions. Ms. Shum has over 20 years of experience in accounting and financing field.

Ms. Shum was graduated from the University of South Australia and major in Accountancy, and is a Certified Practising Accountant member of CPA Australia.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the interests and short positions of the directors and chief executive of the Company in 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")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

The Company

(i) Long position in shares in issue

| Name of Director | Number of shares of HK\$0.01 each | | | | Approximate percentage holding |
|-----------------------|-----------------------------------|----------------------------|------------------------|----------------|--------------------------------|
| | Personal Interest | Corporate Interest | Family Interest | Total Interest | |
| Yu Pun Hoi ("Mr. Yu") | – | 12,515,795,316 (Note 1) | 44,000,000 (Note 2) | 12,559,795,316 | 63.07% |
| Fung Wing Lap | 10,000 | – | – | 10,000 | 0.00005% |

Notes:

- Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai Corporation Limited ("Nan Hai"), the holding company of the Company. These 12,515,795,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, which are all wholly-owned subsidiaries of Nan Hai. As such, Mr. Yu was taken to be interested in these shares for the purposes of Part XV of the SFO.
- These 44,000,000 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

(ii) Long position in underlying shares

| Name of Director | Number of underlying shares of HK\$0.01 each* | Nature of Interest | Approximate percentage holding |
|------------------|---|--------------------|--------------------------------|
| Lam Bing Kwan | 18,000,000 | Personal | 0.09% |
| Chen Dan | 7,500,000 | Personal | 0.04% |

* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

| Grantee | Date of Grant | Exercise price per share HK\$ | Number of share options granted | Exercisable period |
|---------------|---------------|-------------------------------|---------------------------------|--------------------------|
| Lam Bing Kwan | 12-11-2004 | 0.16 | 9,000,000 | 01-07-2005 to 30-06-2008 |
| | | 0.16 | 9,000,000 | 01-07-2006 to 30-06-2008 |
| Chen Dan | 12-11-2004 | 0.16 | 3,750,000 | 01-07-2005 to 30-06-2008 |
| | | 0.16 | 3,750,000 | 01-07-2006 to 30-06-2008 |



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Associated Corporations

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai, the holding company of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company, Nan Hai or their respective controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO. Nan Hai is a company the shares of which are listed on the Stock Exchange which is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 31 December 2006, the interests of the directors of the Company in shares and underlying shares of Nan Hai were as follows:

Nan Hai

(i) Long position in shares in issue

| Name of Director | Number of shares of HK\$0.01 each | | | | Approximate percentage holding |
|------------------|-----------------------------------|----------------------------|------------------------|----------------|--------------------------------|
| | Personal Interest | Corporate Interest | Family Interest | Total Interest | |
| Yu Pun Hoi | – | 32,595,726,203 (Note 1) | 69,326,400 (Note 2) | 32,665,052,603 | 47.89% |
| Fung Wing Lap | 15,756 | – | – | 15,756 | 0.00002% |

Notes:

- Out of these 32,595,726,203 shares, 28,853,232,705 shares were collectively held by Mr. Yu through Rosewood Assets Limited, Pippen Limited and First Best Assets Limited, companies wholly-owned by him; and 3,742,493,498 shares were held by Macro Resources Limited, a company indirectly held as to 60% by Mr. Yu.
- These 69,326,400 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

(ii) Long position in underlying shares

| Name of Director | Number of underlying shares of HK\$0.01 each* | Nature of Interest | Approximate percentage holding |
|------------------|---|--------------------|--------------------------------|
| Lam Bing Kwan | 25,000,000 | Personal | 0.04% |
| Chen Dan | 25,000,000 | Personal | 0.04% |

* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

| Grantee | Date of Grant | Exercise price per share HK\$ | Number of share options granted | Exercisable period |
|---------------|---------------|-------------------------------|---------------------------------|--------------------------|
| Lam Bing Kwan | 15-12-2005 | 0.04 | 12,500,000 | 01-01-2006 to 31-12-2007 |
| | | 0.04 | 12,500,000 | 01-01-2007 to 31-12-2007 |
| Chen Dan | 15-12-2005 | 0.04 | 12,500,000 | 01-01-2006 to 31-12-2007 |
| | | 0.04 | 12,500,000 | 01-01-2007 to 31-12-2007 |



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Associated Corporations (continued)

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board.

On 12 November 2004, share options to subscribe for a total of 233,360,000 shares, representing approximately 1.68% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and subsidiaries and the persons who have provided research, development or other technological support or services to the Group at an exercise price of HK\$0.16 per share. The closing price of share of the Company immediately before the date of grant was HK\$0.158. Movements on the share options during the year are as follows:

| Grantee | Date of Grant | Exercisable period | Exercise price per share HK\$ | Number of share option | | | | |
|--|---------------|--------------------------|-------------------------------|----------------------------------|-------------------------|---------------------------|------------------------|------------------------------------|
| | | | | outstanding as at 1 January 2006 | granted during the year | exercised during the year | lapsed during the year | outstanding as at 31 December 2006 |
| Directors | | | | | | | | |
| Zhang Hong Ren (resigned on 01-04-2006) | 12-11-2004 | 01-07-2005 to 30-06-2008 | 0.16 | 5,000,000 | - | - | (5,000,000) | - |
| | | 01-07-2006 to 30-06-2008 | 0.16 | 5,000,000 | - | - | (5,000,000) | - |
| Lam Bing Kwan | 12-11-2004 | 01-07-2005 to 30-06-2008 | 0.16 | 9,000,000 | - | - | - | 9,000,000 |
| | | 01-07-2006 to 30-06-2008 | 0.16 | 9,000,000 | - | - | - | 9,000,000 |
| Chen Dan (appointed on 14-02-2006) | 12-11-2004 | 01-07-2005 to 30-06-2008 | 0.16 | 3,750,000 | - | - | - | 3,750,000 |
| | | 01-07-2006 to 30-06-2008 | 0.16 | 3,750,000 | - | - | - | 3,750,000 |
| Employees | | | | | | | | |
| In aggregate | 12-11-2004 | 01-07-2005 to 30-06-2008 | 0.16 | 25,980,000* | - | - | (4,800,000) | 21,180,000 |
| | | 01-07-2006 to 30-06-2008 | 0.16 | 25,980,000# | - | - | (4,800,000) | 21,180,000 |
| | | 01-01-2006 to 31-12-2008 | 0.16 | 1,500,000 | - | - | - | 1,500,000 |
| | | 01-01-2007 to 31-12-2008 | 0.16 | 1,500,000 | - | - | - | 1,500,000 |
| Total | | | | 90,460,000 | - | - | (19,600,000) | 70,860,000 |

* 3,750,000 share options which granted to Ms. Chen Dan have been shown in the category of Directors under exercisable period from 1 July 2005 to 30 June 2008 as at 1 January 2006.

3,750,000 share options which granted to Ms. Chen Dan have been shown in the category of Directors under exercisable period from 1 July 2006 to 30 June 2008 as at 1 January 2006.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

A summary of the Scheme is as follows:

(1) Purpose

The purpose of the Scheme is to provide incentives or rewards to participants for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which any member of the Group holds any equity interests (the "Invested Entity").

(2) Participants

The participants include:

- a. any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, its subsidiaries and any Invested Entity;
- b. any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity;
- c. any supplier of goods or services to any member of the Group or any Invested Entity;
- d. any customer of the Group or any Invested Entity;
- e. any person or entity that provides research, development or technological support or other services to the Group or any Invested Entity;
- f. any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- g. any ex-employee who has contributed or may contribute to the development and growth of the Group and any Invested Entity.

(3) Total number of share options available for issue under the Scheme together with the percentage of the issued share capital as at 31 December 2006

The total number of share options available for issue under the Scheme is 70,860,000 shares representing approximately 0.36% of the issued share capital of the Company as at 31 December 2006.

(4) Maximum entitlement of each participant

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company in issue. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the Scheme.

(5) The period within which the shares must be taken up under an option

Not applicable.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

(6) Minimum period for exercising an option

The board of directors of the Company may at its discretion determine the minimum period for which an option must be held before it can be exercised.

(7) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

The option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocably declined and lapsed automatically.

(8) Basis of determining the subscription price

The subscription price for shares under the Scheme shall be a price determined by the Directors, but shall not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

(9) Remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 29 August 2002 up to 28 August 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Except for the Scheme disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than the statutory compensation.

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

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries was a party, and in which any directors 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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2006, those persons (other than directors and chief executive of the Company) who had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO | Nature of interest | Number of shares in issue subject to long position | Approximate percentage of issued share capital of the Company | Notes |
|--|-------------------------------|--|---|-------|
| Kung Ai Ming | Family and Corporate interest | 12,559,795,316 | 63.07% | 1 |
| CITIC Group | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| CITIC Capital Holdings Limited | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| CITIC International Financial Holdings Limited | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| CITIC Pacific Limited | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| Golden Gateway Enterprises Inc. | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| Forever Glory Holdings Ltd. | Corporate interest | 786,230,000 | 3.95% | 2 |
| | Security interest | 1,420,000,000 | 7.13% | |
| Nan Hai | Corporate interest | 12,515,795,316 | 62.85% | |

Notes:

- Ms. Kung Ai Ming is the spouse of Mr. Yu and was taken to be interested in those shares in which Mr. Yu and herself (together with their respective corporate interests) held an interest.
- CITIC Capital Holdings Limited was indirectly interested in 2,206,230,000 shares. CITIC Capital Holdings Limited is indirectly held as to 50% by CITIC Pacific Limited and as to 50% by CITIC International Financial Holdings Limited. Both CITIC International Financial Holdings Limited and CITIC Pacific Limited are companies the shares of which are listed on the Stock Exchange and in which CITIC Group controls an approximately 67% and 29% interests respectively. Both Forever Glory Holdings Ltd. and Golden Gateway Enterprises Inc. are wholly-owned subsidiaries of CITIC Pacific Limited and are companies through which CITIC Pacific Limited holds its 50% interest in CITIC Capital Holdings Limited. The interests held by CITIC Capital Holdings Limited was included as part of the interests of Forever Glory Holdings Ltd., Golden Gateway Enterprises Inc., CITIC Pacific Limited, CITIC International Financial Holdings Limited and CITIC Group.

Save as disclosed above, as at 31 December 2006, no person (other than directors and chief executive of the Company) had notified to the Company any interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.



REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Company and the Group are set out in note 49 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold or redeemed any of the Company's shares during the year.

PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the directors, the Company has maintained during the year sufficient public float as required under the Listing Rules.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 27 to 31.

AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive directors of the Company. On 14 February 2006, Mr. Qin Tian Xiang ceased to be the chairman of the Audit Committee due to his re-designation as an executive director of the Company and Mr. Huang Yaowen was appointed independent non-executive director of the Company and chairman of the Audit Committee. The existing Audit Committee consists of four independent non-executive directors of the Company, namely Mr. Huang Yaowen, Prof. Jiang Ping, Mr. Chan Lap Stanley and Mr. Fung Wing Lap. The Audit Committee has reviewed with the auditors of the Company and the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited accounts for the year ended 31 December 2006.

AUDITORS

The financial statements for the year have been audited by Messrs. Grant Thornton who retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting for the re-appointment of auditors of the Company.

On behalf of the Board

Yu Pun Hoi
Chairman

Hong Kong, 19 April 2007