



## Report of the Directors

The directors of the Company (the "Directors") present their 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 41 to the 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 37.

No interim dividend (2005: HK1 cent per Share and special interim dividend of HK1 cent per Share) was paid to the shareholders during the year. The Board does not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: HK\$0.01 per Share).

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

### SHARE CAPITAL

Details of the movements in the authorised and issued share capital of the Company during the year are set out in note 31 to the financial statements.

### RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 40.

The Company's reserve available for distribution to shareholder at 31 December 2006 amounted to HK\$282,279,000 (2005: HK\$340,800,000).



## DIRECTORS

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

### Executive Directors:

Ou Yaping (*Chairman*)

Tang Yui Man Francis

Xiang Ya Bo

Xu Xinghai (*resigned on 29 May 2006*)

### Non-executive Director:

Sun Qiang Chang (*Non-executive Vice Chairman*)

### Independent Non-executive Directors:

Lu Yungang

Davin A. Mackenzie

Xin Luo Lin

In accordance with clause 87(2) of the bye-laws of the Company ("Bye-laws"), Messrs Tang Yui Man Francis, Xiang Ya Bo and Davin A. Mackenzie shall retire by rotation at the forthcoming annual general meeting of the Company ("AGM") and, 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 ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of independent non-executive Directors to be independent.

No Director proposed for re-election at the forthcoming AGM has a service contract, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.



## Report of the Directors

### 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 (the "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
		Family interest	Corporate interest				
Lu Yungang	Beneficial owner	-	-	-	2,288,000	2,288,000	0.05%
Davin A. Mackenzie	Beneficial owner	-	-	-	2,288,000	2,288,000	0.05%
Ou Yaping	Beneficial owner, interest in controlled corporations and joint interest	3,237,960	2,882,792,295 (Note)	2,886,030,255	2,288,000	2,888,318,255	59.80%
Sun Qiang Chang	Beneficial owner	-	-	-	15,000,000	15,000,000	0.31%
Tang Yui Man Francis	Beneficial owner	-	-	-	22,880,000	22,880,000	0.47%
Xiang Ya Bo	Beneficial owner	-	-	-	22,880,000	22,880,000	0.47%
Xin Luo Lin	Beneficial owner	-	-	-	2,288,000	2,288,000	0.05%

Note: The 2,882,792,295 Shares represent the aggregate of: (i) the 1,971,690,942 Shares held by Sinolink (Mr. Ou Yaping through his wholly-owned company, Asia Pacific Promotion Limited ("Asia Pacific"), hold 48.35% of the existing issued share capital of Sinolink 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"), which is a wholly-owned subsidiary of Sinolink; and (iii) 687,111,000 Shares held by Asia Pacific directly. Mr. Ou Yaping is deemed to be interested in these Shares under the SFO.



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
			Personal interest	Corporate interest	Family interest				
Davin A. Mackenzie	Sinolink	Beneficial owner	-	-	-	-	2,000,000	2,000,000	0.07%
Ou Yaping	Panva Gas	Beneficial owner and interest in controlled corporations	-	575,806,587 (Note 1)	-	575,806,587	3,600,000	579,406,587	60.46%
	Sinolink	Beneficial owner, 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%
	Asia Pacific	Beneficial owner	2	-	-	2	-	2	100.00%
Tang Yui Man Francis	Panva Gas	Beneficial owner	4,400,000	-	-	4,400,000	3,000,000	7,400,000	0.77%
	Sinolink	Beneficial owner	5,700,000	-	-	5,700,000	13,300,000	19,000,000	0.66%
Xin Luo Lin	Sinolink	Beneficial owner	-	-	-	-	2,000,000	2,000,000	0.07%



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### Notes:

1. The 575,806,587 shares in Panva Gas represent the aggregate of (i) 401,233,462 shares of Panva Gas held by Kenson Investment Limited ("Kenson") and 169,491,525 shares of Panva Gas held by Supreme All Investments Limited ("Supreme All"). Kenson and Supreme All are wholly-owned subsidiaries of the Company. 45.46% interests of the Company are held by Sinolink and 48.35% interests of Sinolink are held by Asia Pacific; and (ii) 5,081,600 shares of Panva Gas held by Asia Pacific directly. As Asia Pacific is owned by Mr. Ou Yaping, he is deemed under the SFO to be interested in such 575,806,587 shares of Panva Gas.
2. These shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Ou Yaping, Chairman of Sinolink.

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 of the Company options to subscribe the Share, 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 option as at 1.1.2006	Number of Shares subject to outstanding option as at 31.12.2006	Percentage of the issued share capital of the Company
Lu Yungang	09.06.2004	09.06.2005 – 08.06.2014	0.44	2,288,000	2,288,000	0.05%
Davin A. Mackenzie	20.10.2004	20.10.2005 – 19.10.2015	0.50	2,288,000	2,288,000	0.05%
Ou Yaping	09.06.2004	09.06.2004 – 08.06.2014	0.44	2,288,000	2,288,000	0.05%
Sun Qiang Chang	20.12.2005	20.12.2005 – 07.12.2015	0.83	15,000,000	15,000,000	0.31%
Tang Yui Man Francis	09.06.2004	09.06.2004 – 08.06.2014	0.44	22,880,000	22,880,000	0.47%
Xiang Ya Bo	09.06.2004	09.06.2004 – 08.06.2014	0.44	22,880,000	22,880,000	0.47%
Xin Luo Lin	09.06.2004	09.06.2004 – 08.06.2014	0.44	2,288,000	2,288,000	0.05%



## 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, 2,000,000 options held by the retired Director were lapsed under the share option scheme. No options were granted to or exercised by the Directors and no options held by the Directors were cancelled under the share option scheme.
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	Number of	Approximate
					shares subject to outstanding options as at 1.1.2006	shares subject to outstanding options as at 31.12.2006	percentage of the issued share capital of associated corporations
Davin A. Mackenzie	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%
Ou Yaping	Panva Gas	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%
Tang Yui Man Francis	Panva Gas	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%
	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%
		13.01.2005	31.12.2006 - 24.05.2012	1.126	7,600,000	7,600,000	0.27%
Xin Luo Lin	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%



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*Notes:*

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. These options represent personal interest 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.

### SHARE OPTION SCHEMES OF THE GROUP

#### (A) The Company's Share Option Scheme

##### *2002 Share Option Scheme*

Pursuant to an ordinary resolution passed at the special general meeting held on 24 May 2002 ("Date of Adoption"), the old share option Scheme was terminated and a new share option scheme of the Company (the "2002 Scheme") has been approved which will remain in force for a period of ten years from the Date of Adoption. The board of directors of the Company may grant options to eligible employees, including Directors and its subsidiaries, to subscribe for Shares in the Company for the recognition of their contributions to the Group.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at the Date of Adoption, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12 month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

A nominal consideration of HK\$1 is payable on the grant of an option. Option granted must be taken within 28 days of the date of grant. The exercise price is the highest of the closing price of the shares of the Company as stated on the Stock Exchange on the date of grant, the average of the closing prices of the share of the Company as stated on the Stock Exchange for the five business days immediately preceding the date of grant or the nominal value of the share of the Company.

At 31 December 2006, a total of 86,645,339 Shares (representing approximately 1.81% of the existing issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2002 Scheme.



Details of specific categories options are as follows:

<b>Option type</b>	<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price</b> HK\$
2004A Option	09.06.2004	09.06.2004 – 08.06.2014	0.440
	09.06.2004	09.06.2005 – 08.06.2014	0.440
	09.06.2004	09.06.2006 – 08.06.2014	0.440
	09.06.2004	09.12.2006 – 08.06.2014	0.440
2004B Option	20.10.2004	20.10.2005 – 19.10.2015	0.500
2005 Option	20.12.2005	20.12.2005 – 07.12.2015	0.830
2006A Option	24.01.2006	31.01.2007 – 24.05.2012	0.822
	24.01.2006	31.01.2008 – 24.05.2012	0.822
	24.01.2006	30.06.2008 – 24.05.2012	0.822
2006B Option	30.06.2006	30.06.2007 – 24.05.2012	0.460
	30.06.2006	30.06.2008 – 24.05.2012	0.460
	30.06.2006	31.12.2008 – 24.05.2012	0.460





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

		<b>Outstanding at 1.1.2006</b>	<b>Granted during the year</b>	<b>Exercised during the year</b>	<b>Resigned as director during the year</b>	<b>Lapsed during the year</b>	<b>Outstanding at 31.12.2006</b>
	<b>Option types</b>						
<i>Category 1: Directors</i>							
Lu Yungang	2004A Option	2,288,000	-	-	-	-	2,288,000
Davin A. Mackenzie	2004B Option	2,288,000	-	-	-	-	2,288,000
Ou Yaping	2004A Option	2,288,000	-	-	-	-	2,288,000
Sun Qiang Chang	2005 Option	15,000,000	-	-	-	-	15,000,000
Tang Yui Man Francis	2004A Option	22,880,000	-	-	-	-	22,880,000
Xiang Ya Bo	2004A Option	22,880,000	-	-	-	-	22,880,000
Xin Luo Lin	2004A Option	2,288,000	-	-	-	-	2,288,000
Xu Xinghai	2004A Option	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>(2,000,000)</u>	<u>-</u>	<u>-</u>
Total for Directors		<u>71,912,000</u>	<u>-</u>	<u>-</u>	<u>(2,000,000)</u>	<u>-</u>	<u>69,912,000</u>
<i>Category 2: Other participant</i>							
Participant	2004A Option	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>	<u>(2,000,000)</u>	<u>-</u>
<i>Category 3: Employees</i>							
Total for employees	2004A Option	19,066,672	-	(1,333,333)	-	(4,000,000)	13,733,339
	2006A Option	-	3,000,000	-	-	(3,000,000)	-
	2006B Option	<u>-</u>	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
		<u>19,066,672</u>	<u>6,000,000</u>	<u>(1,333,333)</u>	<u>-</u>	<u>(7,000,000)</u>	<u>16,733,339</u>
All categories		<u>90,978,672</u>	<u>6,000,000</u>	<u>(1,333,333)</u>	<u>-</u>	<u>(9,000,000)</u>	<u>86,645,339</u>

### Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- The closing price of the Shares immediately before 24 January 2006 and 30 June 2006, the date of grant 2006A options and 2006B options under 2002 Scheme was HK\$0.81 and HK\$0.46 respectively.
- The weighted average closing price of the Shares immediately before the date on which the options were exercised on 14 December 2006 was HK\$0.56.
- During the year, 6,000,000 options were granted and 1,333,333 options were exercised under the 2002 Schemes.



5. During the year, 9,000,000 options were lapsed and no options were cancelled under the 2002 Scheme.
6. The fair value of the options granted under 2002 Scheme in the current period measured at the date of grant (24 January 2006 and 30 June 2006) totalled approximately HK\$12,168,000 (2005: HK\$7,017,000). The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected volatility	:	41 % based on historical volatility
Expected dividend yield	:	2.13 % based on historical dividends
Expected life	:	4.5-5 years from grant date
Risk free interest rate	:	4.43 % being the approximate yield of 5-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 computed fair value under the options granted during the year was approximately HK\$0.11 per option share.

## (B) Share Options of Panva Gas

Panva Gas operates three share option schemes, the Panva Pre-GEM Listing Scheme, 2001 Panva GEM Listing Scheme and Panva New Scheme under which the Board of Panva Gas may, at its discretion, offer any employee (including any executive director) of Panva Gas or its subsidiaries options to subscribe for shares in Panva Gas subject to the terms and conditions stipulated in these three schemes. Both Panva Pre-GEM Listing Scheme and the 2001 Panva GEM Listing Scheme were approved by the shareholder of Panva Gas on 4 April 2001 and such schemes were ended on 20 April 2001 and terminated on 26 April 2005 respectively, and no further options will be offered or granted under these two Schemes after that dates. In respect of share options already granted and outstanding under these two Schemes, the provisions of the Panva Pre-GEM Listing Scheme and 2001 Panva GEM Listing Scheme shall remain in full force and effect. The Panva New Scheme was approved by the shareholders of Panva Gas on 28 November 2005 and have a life of 10 years until 27 November 2015.



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Details of specific categories options of Panva Gas are as follows:

<b>Option type</b>	<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price</b> HK\$
<b>Panva Pre-GEM Listing Scheme:</b>			
Panva 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
<b>2001 Panva GEM Scheme:</b>			
2001 Panva 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 Panva 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
<b>Panva New Scheme:</b>			
2006 Panva 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



The following table discloses movements in the Panva Gas's share options during the year under Panva Pre-GEM Listing Scheme, 2001 Panva GEM Listing Scheme and Panva New Scheme:

Option types		Outstanding at 1.1.2006	Granted During the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2006
<i>Category 1: Directors</i>						
Ou Yaping	Panva Pre-GEM Options	3,600,000	-	-	-	3,600,000
Tang Yui Man	2001 Panva GEM Options	960,000	-	(960,000)	-	-
Francis	2004 Panva GEM Options	3,000,000	-	-	-	3,000,000
Other directors of Panva Gas	Panva Pre-GEM Options	6,020,000	-	(2,120,000)	-	3,900,000
	2001 Panva GEM Options	1,920,000	-	(1,920,000)	-	-
	2004 Panva GEM Options	9,400,000	-	-	(800,000)	8,600,000
Total for directors		<u>24,900,000</u>	<u>-</u>	<u>(5,000,000)</u>	<u>(800,000)</u>	<u>19,100,000</u>
<i>Category 2: Employees</i>						
	Panva Pre-GEM Options	2,350,000	-	(590,000)	-	1,760,000
	2001 Panva GEM Options	3,919,000	-	(1,649,000)	(300,000)	1,970,000
	2004 Panva GEM Options	8,800,000	-	(93,000)	-	7,870,000
	2006 Panva Main Board Options	-	5,000,000	-	-	5,000,000
Total for Employees		<u>15,069,000</u>	<u>5,000,000</u>	<u>(3,169,000)</u>	<u>(300,000)</u>	<u>16,600,000</u>
All categories		<u>39,969,000</u>	<u>5,000,000</u>	<u>(8,169,000)</u>	<u>(1,100,000)</u>	<u>35,700,000</u>

*Notes:*

1. The vesting period of the share options of Panva Gas is from the date of grant until the commencement of the exercise period.
2. The closing price of the shares of Panva Gas immediately before 3 October 2006, the date of grant of 2006 Panva Main Board Options, was HK\$2.66.
3. The weighted average share price of Panva Gas 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 Panva 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 of Panva Gas. No options were cancelled under the share option schemes of Panva Gas.



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6. The fair value of the options granted under Panva New 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 Panva Gas's options are different from traded options and because changes in subjective input assumptions can materially affect the fair value estimate in the Panva Gas's directors opinion the model does not necessarily provide a reliable single measure of the fair value of the share options.

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

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

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its subsidiaries or holding companies 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.

### CONNECTED TRANSACTION

During the year, there were no transactions which need to be disclosed as connected transaction pursuant to Chapter 14A of the Rules Governing the Listing of Securities of the Stock Exchange.



## SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, the register of substantial shareholders (other than the Directors or chief executives of the Company as disclosed at above) 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 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 hold

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Aggregate interest</b>	<b>Approximate percentage of the issued share capital</b>
Asia Pacific	Interest of controlled corporations	2,882,792,295 (Note 1)	59.69%
Sinolink	Beneficial owner and interest of controlled corporation	2,195,681,295 (Note 2)	45.46%
Smart Orient	Beneficial owner	223,990,353 (Note 2)	4.64%
Warburg Pincus & Co.	Interest of controlled corporation	477,524,377 (Note 3)	9.89%
Warburg Pincus Equity Partners, L.P.	Interest of controlled corporation	404,548,779 (Note 3)	8.38%
Warburg Pincus Ventures International, L.P.	Interest of controlled corporation	404,548,779 (Note 3)	8.38%
Atlantic Cay International Limited	Beneficial owner	404,548,779 (Note 3)	8.38%



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### Notes:

1. These Shares represent the aggregate of: (i) Asia Pacific directly held 687,111,000 Shares; and (ii) 2,195,681,295 Shares held by Sinolink and its wholly owned subsidiary, Smart Orient, Asia Pacific is interested in approximately 48.35% in Sinolink and it is deemed to be interested in all the Shares held by Sinolink and Smart Orient.
2. These Shares represents the aggregate of: (i) 1,971,690,942 Shares held directly by Sinolink; and (ii) the number of Shares in which Smart Orient is interested as disclosed above.
3. Warburg Pincus & Co. ("WP") is the general partner of the limited partnerships Warburg Pincus Equity Partners, L.P. ("WPE") and Warburg Pincus Ventures International, L.P. ("WPV"), and is deemed to have an interest in all the shares held by these companies. These shares represent the aggregate of the shares held by the funds managed by WP and all the shares held by Atlantic Cay International Limited ("Atlantic Cay").

WPE is interested in 50% of the issued share capital of Atlantic Cay and is deemed to be interested in all the shares held by Atlantic Cay.

WPV is interested in 50% of issued share capital of Atlantic Cay and it is deemed to be interested in all the shares held by Atlantic Cay.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Division 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.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for about 47.0% of the Group's turnover. Sales to the largest customer accounted for 39.5% of the Group's turnover.

The five largest suppliers of the Group in aggregate accounted for about 69.0% of its purchases for the year. Purchases from the largest supplier accounted for about 26.2% of its total purchases.

At no time during the year, did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in the largest customers or any of the five largest suppliers of the Group for the year ended 31 December 2006.

## POST BALANCE SHEET EVENT

Details of significant post balance sheet event are set out in note 40 to the consolidated financial statements.



## DONATIONS

During the year the Group made charitable and other donations amounting to HK\$4,031,000.

## EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 32 to the financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws although there is no restriction against such rights under the laws in Bermuda.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at the date of this report, there is sufficient public float of not less than 25% of the Company's issued share as required under the Listing Rules.

## CORPORATE GOVERNANCE

The Company adopted all the code provisions in the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") as its own code on corporate governance practices.

During the year, the Company has complied with the code provisions as set out in the Code. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on page 29 to 35 of this annual report.

## AUDIT COMMITTEE AND REMUNERATION 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. Lu Yungang, Davin A. Mackenzie and Xin Luo Lin. 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.





## Report of the Directors

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

Details of the Company's audit committee and remuneration committee are set out in Corporate Governance Report on pages 32 to 33.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year, the Company repurchased 9,063,000 Shares on the Stock Exchange at an aggregate consideration of HK\$6,073,000 before expenses. The repurchased Shares were subsequently cancelled. The reason for the repurchase of Shares was for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

<b>Month of repurchase</b>	<b>Number of Shares repurchased</b>	<b>Price per Share</b> HK\$	<b>Aggregate consideration Paid</b> HK\$'000
December 2006	9,063,000	0.67	6,073

The above Shares were cancelled upon repurchase. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**OU Yaping**

*Chairman*

Hong Kong, 19 April 2007