

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's loss for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 92.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 93. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year are set out in notes 28 and 29 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had no reserves available for distribution in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 43% of the total sales for the year and sales to the largest customer included therein amounted to 20%. Purchases from the Group's five largest suppliers accounted for less than 68% of the total purchases for the year and purchases from the largest supplier included therein amounted to 23%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Ji Guirong
Lo Chi Ho, William
Sun Wenhao
Wu Ding
Ji Hui

Independent non-executive directors:

Wang Zhonghua
Zhong Qiang
Xiao Wei

Subsequent to the balance sheet date, on 3 April 2007, Mr. Ji Guirong has been re-designated as a non-executive director of the Company.

In accordance with article 87 of the Company's articles of association, Messrs. Sun Wenhao, Wang Zhonghua and Zhong Qiang will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The terms of office of all directors (including non-executive and independent non-executive directors) are subject to reappointment or retirement by rotation in accordance with articles 86(B), 87 and 88 of the Company's articles of association.

The Company has received annual confirmation of independence from Messrs. Wang Zhonghua, Zhong Qiang and Xiao Wei, and as at the date of this report still considers them to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 5 to 6 of the annual report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Messrs. Lo Chi Ho William and Ji Hui each has a service contract with the Company which commenced on 17 May 2005 and are subject to termination by either party giving not less than two months' written notice. Both of them are subject to reappointment or retirement by rotation in accordance with articles 86(B), 87 and 88 of the Company's articles of association.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

Save as disclosed above, as at 31 December 2006, none of the directors of the Company had an interest or a short position in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Rules Governing the Listing Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following interests of 5% or more of the issued share capital, warrants and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of warrants held
Billirich Investment Limited	(a)	Beneficial owner	290,500,000	19.99%	–
CATIC (H.K.) Limited	(a)	Interest of controlled corporation	290,500,000	19.99%	–
CATIC International Holdings Limited	(a)	Interest of controlled corporation	290,500,000	19.99%	–
China Aviation Industry Corporation I	(a)	Interest of controlled corporation	290,500,000	19.99%	–
China Aviation Industry Corporation II	(a)	Interest of controlled corporation	290,500,000	19.99%	–
China National Aero-Technology Import & Export Corporation	(a)	Interest of controlled corporation	290,500,000	19.99%	–
Tacko International Limited	(a)	Interest of controlled corporation	290,500,000	19.99%	–
JPMorgan Chase & Co.		Beneficial owner	48,830,000		
		Investment manager	34,160,000		
		Custodian/approved lending agent	60,230,000*		
			143,220,000	9.85%	–
Sun Shining Investment Corp.	(b)	Beneficial owner	92,050,000	6.33%	–
Tai Yuen Textile Company Ltd.	(b)	Interest of controlled corporation	92,050,000	6.33%	–
Bonus World Limited		Beneficial owner	124,500,000	8.57%	55,000,000
Legg Mason, Inc.		Investment manager	113,540,000	7.81%	–
Deutsche Bank Aktiengesellschaft		Beneficial owner	90,040,000	6.20%	–

* *lending pool*

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

Notes:

- (a) Billirich Investment Limited ("Billirich") is a wholly-owned subsidiary of CATIC International. Tacko International Limited holds approximately 35.70% of the issued share capital of CATIC International, is a wholly-owned subsidiary of CATIC (H.K.) Limited, which in turn is a wholly-owned subsidiary of China National Aero-Technology Import & Export Corporation. China National Aero-Technology Import & Export Corporation is owned as to 50% by China Aviation Industry Corporation I and as to 50% by China Aviation Industry Corporation II. Accordingly, all these corporations are deemed to be interested in the shares held by Billirich.
- (b) Tai Yuen Textile Company Ltd. beneficially owns 82.86% equity interest in Sun Shining Investment Corp. ("Sun Shining") and is therefore deemed to be interested in the 92,050,000 shares held by Sun Shining.

The shareholders' interest in shares and underlying shares disclosed above do not include 77,070,000 shares recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO. These 77,070,000 shares comprise 34,570,000 issued shares beneficially owned by Deephaven Relative Value Equity Trading Ltd. ("Deephaven") as at 31 December 2006 and 42,500,000 new shares issued on 10 January 2007 pursuant to a share subscription agreement with Deephaven on 19 December 2006. Besides, 60,000,000 shares which will be issued upon full conversion of the convertible bonds issued by the Company to Deephaven on 10 January 2007 pursuant to a convertible bond agreement with Deephaven on 19 December 2006 were also excluded.

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which had been disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transactions

On 10 July 2006, the Company entered into a subscription agreement with Billirich, pursuant to which Billirich agreed to subscribe and the Company agreed to issue and allot an aggregate of 25,000,000 new shares of the Company at the subscription price of HK\$0.53 per share. As of that date, Billirich was interested in 265,500,000 shares, representing approximately 20.93% of the issued share capital of the Company. Billirich was a substantial shareholder (as defined under the Listing Rules) of the Company and a connected person (as defined under the Listing Rules) of the Company.

On 6 September 2006, by reference to the facility agreement dated 14 March 2005 entered into between the Company and Beijing Sinogas Company Limited ("Beijing Sinogas") pursuant to which the Company agreed to provide the facility of up to HK\$40,000,000 (which is unsecured and bears interest at 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% per annum) to Beijing Sinogas, the Company and Beijing Sinogas agreed in writing to extend the repayment date of the loan, the interest and fees accrued and to be accrued to 27 October 2008. As Ms. Ka Ying, who held 50% interest in Best Rich International Limited which in turn held 30.6% interest in Beijing Sinogas, was a connected person of the Company by reason of her being a former director of the Company within the 12 months immediately preceding the date of the announcement, Beijing Sinogas was a connected person of the Company under the Listing Rules.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

Connected transactions (Continued)

On 25 January 2007, the Company entered into a convertible bond agreement with Billirich pursuant to which Billirich agreed to subscribe for the convertible bonds with a principal amount of HK\$15,600,000 at the initial conversion price of HK\$0.65 per conversion share. As of that date, Billirich was interested in 290,500,000 shares, representing approximately 19.42% of the issued share capital of the Company. Billirich was a substantial shareholder (as defined under the Listing Rules) of the Company and a connected person (as defined under the Listing Rules) of the Company.

Continuing connected transactions

On 28 February 2005, the Company and Beijing Sinogas entered into a master agreement in relation to the supply of equipment and machinery for the operations of liquefied natural gas and CNG refueling stations in Mainland China. During the year, equipment and machinery of HK\$21,615,000 were supplied by the Company to Beijing Sinogas.

On 14 March 2005, the Company and Beijing Sinogas entered into a facility agreement pursuant to which the Company conditionally agreed to provide a facility up to HK\$40,000,000 to Beijing Sinogas. As at 31 December 2006, a facility of HK\$34,300,000 was utilised by Beijing Sinogas.

On 7 September 2005, the Company provided a guarantee in favour of Hua Xia Bank in respect of the facility of HK\$10,000,000 granted by Hua Xia Bank to Beijing Sinogas. As at 31 December 2006, a bank loan of HK\$10,000,000 was drawn down by Beijing Sinogas.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DISCLOSURES PURSUANT TO RULE 13.20 OF THE LISTING RULES

In accordance with the requirements of Rule 13.20 of the Listing Rules, the following disclosures are included in respect of the guarantees provided by the Group. On 12 September 2006, Beijing Sinogas entered into an agreement with an independent third party pursuant to which Beijing Sinogas agreed to provide a guarantee up to an amount of RMB60 million in respect of a loan to be provided to such party by a bank. Together with the guarantee given by Beijing Sinogas to such party up to RMB40 million in respect of another bank loan advanced to such party on 20 December 2005, the aggregate amount of guarantees provided to such party amounted to RMB100 million as at 31 December 2006, which exceeded 8% of the total assets of the Group.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 39 to the financial statements.

AUDITORS

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company and Ernst & Young were appointed by the directors to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Ji Guirong

Chairman

Hong Kong

24 April 2007