

REPORT OF THE DIRECTORS

The directors present the annual report and the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 47 and 23 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 38 of the annual report.

An interim dividend of HK\$0.03 (2005: HK\$0.03 and special interim dividend of HK\$0.033) per Share amounting to HK\$85,713,000 was paid to the shareholders during the year.

On 22 March 2006, the board declared a special interim dividend by way of a distribution in respect of Enerchina shares held by the Company in proportion of 5 Enerchina Shares for every 10 Shares held by the shareholders of the Company. A total of 1,422,214,344 Enerchina Shares with the aggregate market value worths HK\$952,884,000 were distributed to shareholders of the Company on 13 April 2006.

A final dividend of HK\$0.035 (2005: HK\$0.035) per Share and a bonus issue of a new Share of HK\$0.10 credited as fully paid for every eight existing Shares held by the shareholders whose name appear on the register of members of the Company on Wednesday, 23 May 2007, has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming AGM.

DISTRIBUTABLE 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 pages 41 to 42.

The Company's reserves available for distribution to shareholders at 31 December 2006, amounted to HK\$1,857,864,000 (2005: HK\$2,749,971,000).

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2006 is set out on page 104.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 18 to the financial statements.

INVESTMENT PROPERTIES

Details of movements during the year in the investment properties of the Group are set out in note 20 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 36 to the financial statements.



REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Ou Yaping (*Chairman*)

Tang Yui Man Francis (*Chief Executive Officer*)

Chen Wei

Law Sze Lai

Independent non-executive Directors:

Davin A. Mackenzie

Tian Jin

Xin Luo Lin

In accordance with Bye-law 87(1) of the bye-laws of the Company (“Bye-laws”), Messrs Ou Yaping, Tang Yui Man Francis and Davin A. Mackenzie shall retire by rotation at the forthcoming AGM and, being eligible, would offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive Directors as regards their independence to the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange. The Company considers that each of the independent non-executive Directors is independent to the Company.

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, 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 issued share capital of the Company at 31.12.2006
		Personal interest	Corporate interest	Family interest				
Chen Wei	Beneficial owner	3,600,000	-	-	3,600,000	8,400,000	12,000,000	0.42%
Law Sze Lai	Beneficial owner	5,900,000	-	-	5,900,000	5,600,000	11,500,000	0.40%
Davin A. Mackenzie	Beneficial owner	-	-	-	-	2,000,000	2,000,000	0.07%
Ou Yaping	Joint interest and interest of controlled corporation	-	1,384,514,000 (Note)	6,475,920	1,390,989,920	-	1,390,989,920	48.57%
Tang Yui Man Francis	Beneficial owner	5,700,000	-	-	5,700,000	13,300,000	19,000,000	0.66%
Tian Jin	Beneficial owner	-	-	-	-	2,000,000	2,000,000	0.07%
Xin Luo Lin	Beneficial owner	-	-	-	-	2,000,000	2,000,000	0.07%

Note:

These 1,384,514,000 Shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Ou Yaping, Chairman of the Company.

Details of the directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire Shares".

REPORT OF THE DIRECTORS

(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 at 31.12.2006
			Personal interest	Corporate interest	Family interest				
Chen Wei	Panva Gas	Beneficial owner	3,600,000	-	-	3,600,000	6,600,000	10,200,000	1.06%
Law Sze Lai	Enerchina	Beneficial owner	1,710,000	-	-	1,710,000	-	1,710,000	0.04%
Davin A. Mackenzie	Enerchina	Beneficial owner	-	-	-	-	2,288,000	2,288,000	0.05%
Ou Yaping	Enerchina	Beneficial owner, interest of 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%
	Panva Gas	Beneficial owner and interest of controlled corporations	-	575,806,587 (Note 2)	-	575,806,587	3,600,000	579,406,587	60.46%
	Asia Pacific	Beneficial owner	2	-	-	2	-	2	100.00%
Tang Yui Man Francis	Enerchina	Beneficial owner	-	-	-	-	22,880,000	22,880,000	0.47%
	Panva Gas	Beneficial owner	4,400,000	-	-	4,400,000	3,000,000	7,400,000	0.77%
Xin Luo Lin	Enerchina	Beneficial owner	-	-	-	-	2,288,000	2,288,000	0.05%

Notes:

- The 2,882,792,295 shares in Enerchina represent the aggregate of: (i) the 1,971,690,942 shares held by the Company (Mr. Ou through his wholly-owned company, Asia Pacific, holds 48.35% of the existing issued share capital of the Company and is therefore deemed to be interested in all shares in which the Company is interested); (ii) the 223,990,353 shares held by Smart Orient Investments Limited ("Smart Orient"), a wholly-owned subsidiary of the Company; and (iii) 687,111,000 shares held by Asia Pacific directly. Mr. Ou is deemed to be interested in these shares under the SFO.
- The 575,806,587 shares in Panva Gas 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. As approximately 45.46% of the issued share capital of Enerchina was held by the Company and approximately 48.35% interest of the Company 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 associated corporations are set out under the heading "Directors' right to acquire Shares".

REPORT OF THE DIRECTORS

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 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 at 1.1.2006	Number of Shares subject to outstanding options at 31.12.2006	Approximate percentage of issued share capital of the Company at 31.12.2006
Chen Wei	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%
Law Sze Lai	13.01.2005	31.12.2005 - 24.05.2012	1.126	2,400,000	-	-
	13.01.2005	30.06.2006 - 24.05.2012	1.126	2,400,000	2,400,000	0.08%
	13.01.2005	31.12.2006 - 24.05.2012	1.126	3,200,000	3,200,000	0.11%
Davin A. Mackenzie	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%
Tang Yui Man Francis	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%
Tian Jin	22.01.2006	31.12.2006 - 24.05.2012	2.370	-	600,000	0.02%
	22.01.2006	30.06.2007 - 24.05.2012	2.370	-	600,000	0.02%
	22.01.2006	31.12.2007 - 24.05.2012	2.370	-	800,000	0.03%
Xin Luo Lin	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. These options represent personal interest held by the Directors as beneficial owners.
3. During the year, 2,000,000 options were granted to a director and 11,700,000 options were exercised by the Directors. No option held by the Directors was lapsed or cancelled.

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

Name of Directors	Name of associated corporation	Date of grant	Exercise period	Exercise price HK\$	Number of	Number of	Approximate percentage of the issued share capital of the associated corporation at 31.12.2006	
					shares options held at 1.1.2006	shares options held at 31.12.2006		
Chen Wei	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%	
		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%	
Davin A. Mackenzie	Enerchina	20.10.2004	20.10.2005 - 19.10.2015	0.500	2,288,000	2,288,000	0.05%	
Ou Yaping	Enerchina	09.06.2004	09.06.2004 - 08.06.2014	0.440	2,288,000	2,288,000	0.05%	
	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	Enerchina	09.06.2004	09.06.2004 - 08.06.2014	0.440	22,880,000	22,880,000	0.47%	
		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%
Xiu Luo Lin	Enerchina	09.06.2004	09.06.2004 - 08.06.2014	0.440	2,288,000	2,288,000	0.05%	

Notes:

- The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- 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.

Save as disclosed above, none of the Directors, chief executives nor their respective associates (as defined in the Listing Rules) had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES OF THE COMPANY

2002 Share Option Scheme

Pursuant to a share option scheme approved by resolutions of the shareholders of the Company dated 24 May 2002 (the “Existing Scheme”); share options were granted to Directors and employees of the Company or its subsidiaries for recognition of their contributions to the Group. The exercise price of the share options will be determined at the higher of the average of closing prices on the Stock Exchange on the five trading days immediately preceding on the date of grant, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares. The share options granted must be taken up within 28 days of the date of grant.

At 31 December 2006, a total of 78,090,000 Shares (representing approximately 2.72% of the existing issued share capital of the Company as at the date of this annual report) may be issued upon exercise of all options which had been granted and yet to be exercised under the Existing Scheme.

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

The total number of Shares in respect of which options may be granted under the Existing Scheme are not permitted to exceed 10% of the Shares in issue at the date of approval of the Existing Scheme, 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 in issue at any point in time, without prior approval from the Company’s shareholders.

Consideration of HK\$1 is payable on the grant of an option.

Additional information in relation to the Company’s share option schemes are set out in note 41 to the financial statements.



REPORT OF THE DIRECTORS

Details of specific categories of share options are as follows:

Option types	Date of grant	Exercise period	Exercise price <i>HK\$</i>
2004 Options	01.01.2004	01.06.2004 - 31.05.2008	0.760
	01.01.2004	01.01.2005 - 31.05.2008	0.760
	01.01.2004	01.06.2005 - 31.05.2008	0.760
	01.01.2004	01.01.2006 - 31.05.2008	0.760
2005 Options	13.01.2005	31.12.2005 - 24.05.2012	1.126
	13.01.2005	30.06.2006 - 24.05.2012	1.126
	13.01.2005	31.12.2006 - 24.05.2012	1.126
2006A Options	22.01.2006	31.12.2006 - 24.05.2012	2.370
	22.01.2006	30.06.2007 - 24.05.2012	2.370
	22.01.2006	31.12.2007 - 24.05.2012	2.370
2006B Options	14.02.2006	28.02.2007 - 24.05.2012	2.485
	14.02.2006	31.07.2007 - 24.05.2012	2.485
	14.02.2006	28.02.2008 - 24.05.2012	2.485
2006C Options	30.06.2006	30.06.2007 - 24.05.2012	1.410
	30.06.2006	31.12.2007 - 24.05.2012	1.410
	30.06.2006	30.06.2008 - 24.05.2012	1.410

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

	Option type	Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2006
Category 1: Directors						
Chen Wei	2005 Options	12,000,000	-	(3,600,000)	-	8,400,000
Law Sze Lai	2005 Options	8,000,000	-	(2,400,000)	-	5,600,000
Davin A. Mackenzie	2005 Options	2,000,000	-	-	-	2,000,000
Tang Yui Man Francis	2005 Options	19,000,000	-	(5,700,000)	-	13,300,000
Tian Jin	2006A Options	-	2,000,000	-	-	2,000,000
Xin Luo Lin	2005 Options	2,000,000	-	-	-	2,000,000
Total for Directors		43,000,000	2,000,000	(11,700,000)	-	33,300,000
Category 2: Employees						
	2004 Options	9,040,000	-	(6,360,000)	-	2,680,000
	2005 Options	60,800,000	-	(21,340,000)	(350,000)	39,110,000
	2006B Options	-	2,800,000	-	(2,800,000)	-
	2006C Options	-	3,000,000	-	-	3,000,000
Total for employees		69,840,000	5,800,000	(27,700,000)	(3,150,000)	44,790,000
Total for all categories		112,840,000	7,800,000	(39,400,000)	(3,150,000)	78,090,000

Notes:

- The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- The closing price of the Company's shares immediately before the date of grant of the 2006 options, i.e. 22 January 2006, 14 February 2006 and 30 June 2006 were HK\$2.42, HK\$2.22 and HK\$1.42 respectively.
- The weighted average closing share price immediately before the date of exercise of share options was HK\$1.42 to HK\$2.75.
- During the year, 7,800,000 options were granted and 39,400,000 options were exercised under the Existing Scheme.
- During the year, 3,150,000 options were lapsed under the Existing Scheme. No options were cancelled under the Existing Scheme.



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6. The fair value of the options granted under the Existing Scheme during the year measured at the date of grant (22 January 2006, 14 February 2006 and 30 June 2006) totalled approximately HK\$4,387,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Weighted average share price	:	HK\$1.964
Weighted average exercise price	:	HK\$2.042
Expected volatility	:	39%-46% based on historical volatility
Expected dividend yield	:	3.43%-3.92% p.a. based on historical dividends
Expected life	:	4.5 years from grant date
Risk free interest rate	:	4.043%-4.691% p.a. 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 period was at a range of approximately HK\$0.50 to HK\$0.67 per option share.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Existing Scheme disclosed above, at no time during the period was the Company, its holding company, or any or its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or the chief executive or any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' SERVICE CONTRACT

There is no unexpired directors' service contract which is not terminable by the Company within one year of any Director proposed for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed, no contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow 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

SUBSTANTIAL SHAREHOLDERS

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

Name of shareholders	Capacity	Interest in Shares	Approximate percentage of the Company's issued share capital at 31.12.2006
Asia Pacific	Beneficial owner	1,384,514,000 <i>(Note 1)</i>	48.35%
The Children's Investment Fund Management (UK) LLP	Investment manager	159,384,000 <i>(Note 2)</i>	5.57%
The Children's Investment Master Fund	Beneficial owner	159,384,000 <i>(Note 2)</i>	5.57%
Paul G. Desmarais	Interest of controlled corporations	145,000,000 <i>(Note 3)</i>	5.06%
Nordex Inc.	Interest of controlled corporations	145,000,000 <i>(Note 3)</i>	5.06%
Gelco Enterprises Ltd.	Interest of controlled corporations	145,000,000 <i>(Note 3)</i>	5.06%
Power Corporation of Canada	Interest of controlled corporations	145,000,000 <i>(Note 3)</i>	5.06%
Power Financial Corporation	Interest of controlled corporations	145,000,000 <i>(Note 3)</i>	5.06%
IGM Financial Inc.	Interest of controlled corporations	145,000,000 <i>(Note 3)</i>	5.06%

Notes:

1. The 1,384,514,000 Shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Ou Yaping, Chairman of the Company.
2. These 159,384,000 Shares are held by The Children's Investment Master Fund ("TCI Fund"). The Children's Investment Fund Management (UK) LLP is the investment manager of TCI Fund.



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3. The 145,000,000 Shares are held by Mackenzie Cundill Investment Management Ltd. Mr. Paul G. Desmarais through his interests in Nordex Inc., Gelco Enterprises Ltd., Power Corporation of Canada, Power Financial Corporation and IGM Financial Inc., and is therefore deemed to be interested in all Shares in which Mackenzie Cundill Investment Management Ltd. is interested.

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.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions of the Company require disclosure in the annual report of the Company:

As disclosed in the announcement dated 14 March 2006, Sinolink Properties Limited, a subsidiary of the Company, as vendor (the "Vendor") entered into the sales and purchase agreement ("S&P Agreement") with Mr. Chen Wei as purchaser whereby Mr. Chen agreed to purchase from the Vendor the property situated at Flat I, 1/F, Block 6 Shui Xuan, Sinolink Garden II, Taian Road, Luo Hu District, Shenzhen, PRC for a consideration of HK\$4,586,933.

Mr. Chen is an executive director of the Company and Panva Gas, a subsidiary of the Company, and thus Mr. Chen is a connected person of the Company under the Listing Rules. Accordingly, transaction between Mr. Chen and the Company constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. However, since the S&P Agreement is on normal commercial terms and the amounts are less than 2.5% of each of the appropriate percentage ratios of the Company calculated in accordance with the Listing Rules, the S&P Agreement is only subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules and is exempted from the independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

The independent non-executive Directors confirm that the transactions have been entered into by the Company in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

As at 31 December 2006, the aggregate amount of financial assistance to associated companies by the Group amounted to HK\$1,406,576,000 which exceeded 8% of the assets ratios as defined in Rule 14.07(1) of the Listing Rules.

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An proforma consolidated balance sheet of the associated companies as at 31 December 2006 is presented as follows:

	<i>HK\$'000</i>
Non-current assets	888,048
Current assets	400,852
Current liabilities	(3,085)
Non-current liabilities	<u>(1,480,224)</u>
Net liabilities	<u>(194,409)</u>

The Group's attributable interest in the associated companies as at 31 December 2006 comprised net liabilities of HK\$73,566,000. According to the investment agreement dated 30 November 2005, the Group is committed to finance all the funding of the associated companies and share its net liabilities.

DONATIONS

During the year the Group made charitable and other donations amounting to HK\$2,012,000.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Director's as 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest supplier accounted for approximately 8% of the Group's total purchases and the Group's largest five suppliers accounted for approximately 23% of the Group's total purchases.

During the year, the Group's largest customer accounted for approximately 7% of the Group's total sales and the Group's largest five customers accounted for 10% of the Group's total sales.

None of the Directors, their associates or any shareholders, which to the knowledge of the Directors owned more than 5% of the Company's issued share capital, had an interest in the share capital of any of the five largest suppliers and customers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws of Bermuda.

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

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.



REPORT OF THE DIRECTORS

The emoluments of the Directors are determined 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 41 to the financial statements and under the heading "Directors' right to acquire Shares".

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. Davin A. Mackenzie, Tian Jin 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.

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.

AUDITORS

The financial statements of the Company for the year ended 31 December 2006 have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming AGM 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