

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended March 31, 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its associates, jointly controlled entities and principal subsidiaries are set out in notes 18, 19 and 51, respectively, to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended March 31, 2007 are set out in the consolidated income statement on page 55.

The Board recommended the payment of a final dividend of HK1.2 cents per share for the year ended March 31, 2007 to the holders of ordinary shares of the Company whose names appear on the Registrar of Members of the Company on August 22, 2007 subject to shareholders' approval at the forthcoming annual general meeting.

The final dividend, if approved by the shareholders, is expected to be payable on or about September 28, 2007.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 133.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group revalued all of its investment properties at the year end date. The net increase in fair value of investment properties, which has been credited to profit or loss, amounting to HK\$4,650,000.

Details of these and other movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 15 and 16 to the consolidated financial statements respectively.

MAJOR PROPERTIES

Details of the major properties of the Group at March 31, 2007 are set out on page 134.

SHARE CAPITAL, AND CONVERSION BONDS SUBSCRIPTION RIGHTS ATTACHED TO CONVERTIBLE BONDS

Details of movements during the year in the share capital and convertible bonds of the Company are set out in notes 35 and 37 respectively to the consolidated financial statements.

During the year, a total of 7,001,191 shares were issued for the conversions of subscription rights attached to the conversion bonds. At the balance sheet date, the Company had outstanding convertible bonds of US\$40,000,000.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserve available for distribution to shareholders as at March 31, 2007 comprised the accumulated profits of HK\$95,853,000.

Directors' Report

DIRECTORS

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

Executive directors

Mr. Li Xiao Yun
Mr. Xu Ying
Mr. Liu Ming Hui
Mr. Ma Jin Long
Mr. Zhu Wei Wei

Non-executive directors

Mr. Feng Zhuo Zhi
Mr. Mark Gelinias (appointed on July 20, 2007)
Mr. Jo Yamagata (appointed on October 2, 2006)
Mr. R. K. Goel (appointed on December 1, 2006)
Mr. Harrison Blacker (resigned on July 20, 2007)
Mr. Suresh Raghavanachari (resigned on December 1, 2006)

Independent non-executive directors

Mr. Zhao Yu Hua
Dr. Mao Er Wan
Ms. Wong Sin Yue, Cynthia

In accordance with the provisions of the Company's Bye-laws, Mr. Li Xiao Yun, Mr. Xu Ying, Ms. Wong Sin Yue, Cynthia, Mr. Jo Yamagata, Mr. R. K. Goel and Mr. Mark Gelinias shall retire and, being eligible, offer themselves for re-election.

The term of office of each non-executive or independent non-executive director is the period up to his/her retirement by rotation in accordance with the above clause of the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Each of Mr. Xu Ying and Mr. Liu Ming Hui had entered into a service agreement with the Company commencing from April 1, 2005 for a period of three years.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in note 47 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at March 31, 2007, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities (the "Listing Rules"), were as follows:

(a) Ordinary shares of HK\$0.01 each of the Company (the "Shares")

Name of director	Nature of interest	Number of attributable number of Shares held (Note)	Approximate percentage or attributable percentage of shareholdings (%)
Mr. Liu Ming Hui	Personal	372,424,000 (L)	12.03
("Mr. Liu")		118,500,000 (S)	3.83

L: Long position

S: Short position

Note: Among these 372,424,000 Shares, 253,924,000 Shares are beneficially owned by Mr. Liu and 118,500,000 Shares are to be delivered to Hai Xia Finance Holdings Limited ("Hai Xia"). Pursuant to a sale and purchase agreement dated March 8, 2005 entered into between Hai Xia and Mr. Liu, Mr. Liu agreed to sell and Hai Xia agreed to purchase 190,000,000 Shares from Mr. Liu in five tranches for cash consideration in the aggregate amount of HK\$330,000,000. Details of the transaction have been set out in the announcement of the Company dated March 9, 2005.

As at March 31, 2007, sale and purchase of 71,500,000 Shares had been completed, the outstanding number of shares to be sold and purchased is 118,500,000 Shares.

(b) Share options

Name of director	Number of options held (Note)	Nature of interest	Number of underlying shares	Approximate percentage of issued shares capital of the Company
Mr. Liu	135,000,000	Beneficial owner	135,000,000	4.36%
Mr. Xu Ying	95,000,000	Beneficial owner	95,000,000	3.07%
Mr. Zhu Wei Wei	10,000,000	Beneficial owner	10,000,000	0.32%
Mr. Li Xiao Yun	10,000,000	Beneficial owner	10,000,000	0.32%
Mr. Ma Jin Long	9,240,711	Beneficial owner	9,240,711	0.30%
Mr. Zhao Yu Hua	1,700,000	Beneficial owner	1,700,000	0.05%
Ms. Wong Sin Yue, Cynthia	1,700,000	Beneficial owner	1,700,000	0.05%
Dr. Mao Er Wan	1,000,000	Beneficial owner	1,000,000	0.03%
	263,640,711		263,640,711	

Note: The share options were granted under the share option scheme adopted by the Company on February 6, 2003 and the holders thereof are entitled to subscribe for Shares at an exercise price and exercise period as disclosed in the section headed "Share Options" below.

Save as disclosed above, as at March 31, 2007, none of the directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

SHARE OPTIONS

Particulars of the Company's share option scheme and details of movements in the share options under the share option scheme during the year are set out in note 48 to the consolidated financial statements.

Name	Exercise period	Exercise price HK\$	No. of options			Outstanding as at March 31, 2007
			As at April 1, 2006	Exercised during the financial year ended March 31, 2007	Lapsed during the financial year ended March 31, 2007	
Directors						
Mr. Li Xiao Yun	9.1.2004 to 1.8.2014	0.80	5,000,000	–	–	5,000,000
	10.20.2010 to 10.19.2015	1.50	5,000,000	–	–	5,000,000
Mr. Xu Ying	9.1.2004 to 1.8.2014	0.80	5,000,000	–	–	5,000,000
	11.22.2004 to 10.5.2014	0.71	90,000,000	–	–	90,000,000
Mr. Liu	9.1.2004 to 1.8.2014	0.80	5,000,000	–	–	5,000,000
	11.22.2004 to 10.5.2014	0.71	130,000,000	–	–	130,000,000
Mr. Zhu Wei Wei	9.1.2004 to 1.8.2014	0.80	4,000,000	–	–	4,000,000
	3.20.2005 to 10.5.2014	0.71	6,000,000	–	–	6,000,000
Mr. Ma Jin Long	9.1.2004 to 1.8.2014	0.80	9,240,711	–	–	9,240,711
Mr. Zhao Yu Hua	9.1.2004 to 1.8.2014	0.80	1,000,000	–	–	1,000,000
	1.1.2005 to 10.5.2014	0.71	700,000	–	–	700,000
Dr. Mao Er Wan	9.1.2004 to 1.8.2014	0.80	1,000,000	–	–	1,000,000
Ms. Wong Sin Yue, Cynthia	9.1.2004 to 1.8.2014	0.80	1,000,000	–	–	1,000,000
	1.1.2005 to 10.5.2014	0.71	700,000	–	–	700,000
			263,640,711	–	–	263,640,711
Other employees						
	9.1.2004 to 1.8.2014	0.80	68,510,000	(3,240,000)	(2,060,000)	63,210,000
	3.20.2005 to 10.5.2014	0.71	146,060,000	(14,400,000)	–	131,660,000
	10.20.2010 to 10.19.2015	1.50	151,800,000	–	–	151,800,000
	1.27.2011 to 1.26.2016	1.52	6,500,000	–	–	6,500,000
			372,870,000	(17,640,000)	(2,060,000)	353,170,000
			636,510,711	(17,640,000)	(2,060,000)	616,810,711

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2007, so far as was known to the directors and the chief executives of the Company, the following persons (not being directors or chief executive of the Company), had or was deemed to have, an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholder	Notes	Nature of interest	Total	Approximate percentage or attributable percentage of shareholdings (%)
Ms. Xu Xau Lan	1	Deemed interest	507,424,000 (L)	16.39
			118,500,000 (S)	3.83
Hai Xia	2	Beneficial owner	340,000,003 (L)	10.98
			150,000,003 (S)	4.84
China Petroleum & Chemical Corporation		Beneficial owner	210,000,000 (L)	6.78
GAIL (India) Limited		Beneficial owner	210,000,000 (L)	6.78
Oman Oil Company, S.A.O.C.	3	Beneficial owner	210,000,000 (L)	6.78
Mackenzie Financial Corporation	4	Investment manager	215,198,600 (L)	6.95

L: Long position

S: Short position

Notes:

- (1) Ms. Xu Xau Lan is deemed to be interested in the shares held by her spouse, Mr. Liu, the managing director of the Company.
- (2) On March 8, 2005, a sale and purchase agreement was entered into between Hai Xia and Mr. Liu. Pursuant to which Mr. Liu has agreed to sell and Hai Xia has agreed to purchase 190,000,000 Shares from Mr. Liu in five tranches for a cash consideration in an aggregate amount of HK\$330,000,000. Details of the transaction was set out in the announcement of the Company dated March 9, 2005. As at March 31, 2007, sale and purchase of 71,500,000 Shares has been completed, the outstanding number of shares to be sold and purchased is 118,500,000 Shares.

The 340,000,003 Shares represented 221,500,003 Shares beneficially owned by Hai Xia and 118,500,000 Shares agreed to be acquired by Hai Xia from Mr. Liu.
- (3) The Company was notified by Oman Oil Company, S.A.O.C. ("OOC") on May 15, 2007 and May 17, 2007 that OOC has purchased 13,916,000 shares and 13,651,000 shares of the Company at an average price of HK\$1.691 per share and HK\$1.767 per share from the open market respectively. A total of 27,567,000 shares were purchased in aggregate. After such purchases, the total number of shares held by OOC is 237,567,000 shares, representing 7.66% of the issued share capital of the Company as at May 17, 2007.
- (4) The Company was notified by Mackenzie Financial Corporation ("Mackenzie") on April 27, 2007 that the aggregate shareholdings of the relevant funds managed by Mackenzie was interested in 154,650,600 shares, represented, 4.98% of the issued share capital as at April 27, 2007 and Mackenzie ceased to have 5% interest in the issued share capital of the Company.

Save as disclosed herein, as at March 31, 2007, the directors and the chief executives of the Company were not aware of any person (other than the directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significances, to which the Company or any of its subsidiaries 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for less than 30% of the Group's revenue. The aggregate purchases attributable to the Group's five largest suppliers were 38% of total purchases of the Group, with the largest supplier accounted for approximately 13%.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in the Group's five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF 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 senior management of the Group is set up by the Remuneration Committee on the basis of 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 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 48 to the consolidated financial statements.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended March 31, 2007.

POST BALANCE SHEET EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 50 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Liu Ming Hui

Managing Director

July 20, 2007