

# Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2006.

## Principal Activities

The principal activity of the Company is investment holding.

The principal activities and other relevant details of the subsidiaries and associates are set out in notes 13 and 14 to the accounts respectively.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the accounts.

The Company, being an investment holding company, has no supplier or customer. All the subsidiaries are either investment holding companies or dormant companies and have no supplier or customer.

## Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 32.

The directors do not recommend the payment of a dividend for the year ended 31 December 2006.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

## Share Capital

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

## Distributable Reserves

Distributable reserves of the Company at 31 December 2006 amounted to US\$731,627.

## Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 80.

# Report of the Directors

## Purchase, Sale or Redemption of the Company's Shares

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

## Directors

The directors during the year were:

- Mr. Lao Yuan Yi
- Mr. Xu Xiao Feng (appointed on 28 June 2006)
- Mr. Wang Jun Yan (resigned on 18 December 2006)
- Ms. Lao Yuan Yuan
- # Mr. Jiang Wei
- # Mr. Yeung Wai Kin
- # Mr. Zhao Yu Qiao
- \* Mr. Peter Duncan Neil Robertson
- \* Mr. Fan Jia Yan
- \* Mr. Wu Ming Yu

# *Non-executive directors*

\* *Independent non-executive directors*

In accordance with Articles 87B, 90 and 98 of the Company's Articles of Association, Mr. Xu Xiao Feng, Mr. Peter Duncan Neil Robertson and Mr. Jiang Wei will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## Directors' Service Contracts

No director (whether or not he is proposed for re-election at the forthcoming annual general meeting) has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation (if any).

## Biographical Details of Directors

Brief biographical details of directors are set out on pages 14 and 15.

# Report of the Directors

## Amended Management Agreement

The Company entered into an agreement (the “Management Agreement”) on 28 March 1991 with a related company, China Assets Investment Management Limited (“CAIML”), for provision of management and advisory services to the Company. The Management Agreement was subsequently amended on 8 April 1992 and a supplemental agreement (the “Amended Management Agreement”) was signed on 11 October 2004 in which the term of the Management Agreement was fixed to continue to 31 December 2006 and thereafter renewable for further terms of 2 years each provided that the requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) are complied with before renewal. The Amended Management Agreement may be terminated by either party by serving not less than six months’ written notice to the other party provided that the Company is required to have approval of its shareholders (by way of ordinary resolution) before giving such notice.

Under the Amended Management Agreement, CAIML is entitled to receive from the Company a management fee at the rates of (i) 2.75% per annum on the aggregate cost to the Company of the investment (less any provisions in respect thereof) held by it from time to time; and (ii) 1% per annum on the value of the uninvested net assets of the Company. In addition, CAIML is entitled to performance bonus based on a specified formula on the return on net assets and net capital gains of the Company.

CAIML is an associate of First Shanghai Investments Limited (“FSIL”), a substantial shareholder of the Company holding approximately 33.23% equity interests in the Company as at 31 December 2006. On the other hand, the Company is a substantial shareholder of FSIL holding approximately 20.746% equity interests in FSIL as at 31 December 2006.

The directors of the Company confirm that none of them has any equity interest in CAIML or any personal interest in the Amended Management Agreement except that (a) Mr. Lao Yuan Yi, a director of the Company, FSIL and CAIML, has an indirect interest in CAIML through his 13.67% interests in FSIL; (b) Mr. Yeung Wai Kin, a director and a shareholder of CAIML, is also a director of FSIL and the Company, (c) Mr. Xu Xiao Feng, a director of the Company, is also a director of CAIML and (d) Mr. Wang Jun Yan, a director of the Company (resigned on 18 December 2006), was also a director and a shareholder of CAIML.

The above transaction is disclosed in note 24(a) to the accounts and does not constitute a connected transaction as defined under the Listing Rules.

# Report of the Directors

## Share Options

### Options in respect of shares in the Company

At the Annual General Meeting of the Company held on 19 May 2004, the shareholders of the Company approved adoption of a share option scheme (the “Scheme”). The purpose of the Scheme is to enable the Company to grant options for the subscription of shares in the Company to selected participants as incentives or rewards for their contribution to the Group. Pursuant to the terms of the Scheme, the Directors may at their discretion offer any employee, proposed employee or director of the Company, any of its subsidiaries, its investment manager, CAIML (the “Manager”) or any invested entity in which the Group holds not less than 20% of its equity interest to take up options to subscribe for the shares in the Company.

Details of the share options granted under the Scheme and remain outstanding as at 31 December 2006 are as follows:

	Options held at 1 January 2006	Options exercised during the year	Options held at 31 December 2006	Exercise price HK\$	Closing price before the date of grant	Date of grant	Exercise period
Directors:							
Lao Yuan Yi	725,000	—	725,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Wang Jun Yan	700,000	(700,000) <sup>1</sup>	—	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Jiang Wei	50,000	—	50,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Yeung Wai Kin	700,000	—	700,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Zhao Yu Qiao	700,000	(115,000) <sup>2</sup>	585,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Peter Duncan Neil							
Robertson	70,000	—	70,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Fan Jia Yan	70,000	(70,000) <sup>3</sup>	—	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Wu Ming Yu	70,000	—	70,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
Employees of the Manager	700,000	(430,000) <sup>4</sup>	270,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	<u>3,785,000</u>	<u>(1,315,000)</u>	<u>2,470,000</u>				

<sup>1</sup> The weighted average closing price before the dates of exercise was HK\$5.10.

<sup>2</sup> The weighted average closing price before the dates of exercise was HK\$5.93.

<sup>3</sup> The weighted average closing price before the dates of exercise was HK\$6.20.

<sup>4</sup> The weighted average closing price before the dates of exercise was HK\$5.82.

# Report of the Directors

## Share Options *(Continued)*

### Options in respect of shares in associated corporations

	Associated corporation	Date of grant	Balance of options not exercised (percentage of issued share capital) as at 31 December 2006	Exercise price HK\$	Exercise period
Directors:					
Lao Yuan Yi	First Shanghai Investments Limited	01/11/1997	10,000,000	0.816	01/05/1998 — 12/11/2007
		30/11/2005	22,842,000	0.564	30/05/2006 — 11/12/2015
			<hr/> 32,842,000 (2.75%) <hr/>		
Yeung Wai Kin	First Shanghai Investments Limited	01/11/1997	2,500,000	0.816	01/05/1998 — 12/11/2007
		08/07/1998	6,980,000	0.283	08/01/1999 — 15/07/2008
		30/11/2005	11,810,000	0.564	30/05/2006 — 11/12/2015
			<hr/> 21,290,000 (1.78%) <hr/>		

The above share options were granted under the share option scheme of First Shanghai Investments Limited adopted on 24 May 2002.

### Directors' Interests in Contracts

Save as disclosed in the section headed Amended Management Agreement above, no other contracts of significance in relation to the Group's business 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.

Save as disclosed in the section headed Amended Management Agreement above, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

# Report of the Directors

## Directors' and Chief Executives' Interests and Short Positions in the Shares and Underlying Shares of the Company and Its Associated Corporations

As at 31 December 2006, the interests and short positions of the directors and chief executives of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (Cap. 571) ("SFO")) recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO or notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

### Shares in associated corporations

			Number of ordinary shares held (percentage of issued share capital)
Associated corporation	Name	Type of interest	
First Shanghai Investments Limited	Lao Yuan Yi	Personal	90,216,000
		Corporate	72,952,000
			<hr/>
			163,168,000 (13.67%)

Apart from the Amended Management Agreement and share option scheme stated above, at no time during the year had the Company, its subsidiaries, its associates, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

# Report of the Directors

## Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

The register of substantial shareholders' interests required to be kept under section 336 of Part XV of the SFO reveals that as at 31 December 2006, the Company had been notified of the following interests of the substantial shareholders of the Company, being 5% or more of the Company's issued shares that carry a right to vote at general meetings of the Company.

Name	Type of interest	Capacity	Number of ordinary shares held	Percentage of issued share capital
First Shanghai Investments Limited ("FSIL") (Note 1)	Corporate	Interest of Controlled Corporation	25,162,866	33.23%
First Shanghai Direct Investments Limited ("FSDI") (Note 1)	Corporate	Interest of Controlled Corporation	25,162,866	33.23%
Golad Resources Limited (Note 1)	Corporate	Beneficial Owner	25,162,866	33.23%
Deutsche Bank Aktiengesellschaft	Corporate	Security Interest	15,730,000	20.78%
QVT Financial LP (Note 2)	Corporate	Investment Manager	15,730,000	20.78%
QVT Financial GP LLC (Note 2)	Corporate	Interest of Controlled Corporation	15,730,000	20.78%
QVT Associates GP LLC (Note 3)	Corporate	Interest of Controlled Corporation	12,771,651	16.87%
QVT Fund LP (Note 3)	Corporate	Beneficial Owner	12,771,651	16.87%
Chen Dayou	Personal	Beneficial Owner	8,405,000	11.10%

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## Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company *(Continued)*

Notes:

- (1) Both FSIL and FSDI had corporate interests in the issued share capital of the Company through their indirect or direct share interests in Golad Resources Limited. Golad Resources Limited is wholly-owned by FSDI, which is, in turn, wholly-owned by FSIL.
- (2) QVT Financial GP LLC had interest in QVT Financial LP which is deemed to have interest in the issued share capital of the Company since QVT Financial LP acts in the capacity of an investment manager to QVT Fund LP.
- (3) QVT Associates GP LLC had interest in the issued share capital of the Company through its interest in QVT Fund LP.

Save as disclosed above, no other shareholders of the Company had any beneficial or legal interests in 5% or more of the Company's issued shares that carry a right to vote in general meetings of the Company as recorded in the register required to be kept by the Company. All the interests described above represent long position in the shares of the Company and no short positions, deemed interests or derivative interests were recorded in the register required to be kept by the Company as at 31 December 2006.

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

## Subsequent events

Details of subsequent events are set out in note 25 to the accounts.

## Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Lao Yuan Yi**

*Chairman*

Hong Kong, 20 April 2007