

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in property development and, through its listed subsidiary, Sino-i Technology Limited ("Sino-i"), is engaged in corporate IT application services, financial information services, distance learning and application services.

CHANGE OF COMPANY NAME

By a special resolution duly passed on 10 June 2005, the Company changed its name from "South Sea Holding Company Limited" to "Nan Hai Corporation Limited" and the Chinese translation of "南海控股有限公司" adopted for identification purpose remains unchanged.

GEOGRAPHICAL ANALYSIS OF OPERATIONS

An analysis of the Group's turnover and contribution to operating profit/loss for the year by principal activities and markets is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 37.

The directors do not recommend the declaration of the payment of a final dividend for the year ended 31 December 2005 (2004: nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years/periods is set out on page 112.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 16 to the financial statements.

REPORT OF THE DIRECTORS

ASSOCIATES

Particulars of the Company's and the Group's associates are set out in note 17 to the financial statements.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Group's bank loans, overdrafts and other borrowings as at 31 December 2005 are set out in note 27 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 29 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the contributed surplus of the Company amounting to HK\$1,971,857,000 (2004: HK\$1,971,857,000) is a distributable reserve.

MAJOR CUSTOMERS AND SUPPLIERS

	31 December 2005	31 December 2004
Sales		
– the largest customer	N/A	56%
– five largest customers combined	N/A	100%
Purchases		
– the largest supplier	N/A	74%
– five largest suppliers combined	N/A	99%

For the year ended 31 December 2004, the Group's turnover was mainly arisen from trading of consumer packaged electronics with transactions entered into with few major customers and suppliers. On 30 August 2005, the Group completed its corporate restructuring with its original shareholder, Sino-i, and Sino-i became subsidiary of the Company. As a result, the Group reflects a 4-month operation contribution from Sino-i. The Group's sales to the five largest customers and purchases from the five largest suppliers in aggregate for the year ended 31 December 2005 accounted for less than 30% of the Group's total turnover and purchases respectively.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS (Continued)

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) were interested in the above suppliers or customers at any time in 2004.

DIRECTORS' EMOLUMENTS

Details of directors' emoluments are set out in note 36 to the financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

PENSION COSTS

Details of retirement benefit plans in respect of the year are set out in note 35 to the financial statements.

DIRECTORS

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

Mr. YU Pun Hoi (<i>Chairman</i>)	
Mr. ZHANG Hong Ren	(resigned on 1 April 2006)
Dr. ZHAO Liang	(resigned on 31 December 2005)
Mr. QIN Tian Xiang	(re-designated as executive director on 14 February 2006)
Ms. CHEN Dan	(appointed on 14 February 2006)
Mr. YU Lin Hoi #	
Mr. LAM Bing Kwan #	
Mr. HUANG Yaowen *	(appointed on 14 February 2006)
Prof. JIANG Ping *	(appointed on 14 February 2006)
Ms. WEI Jingyun*	
Mr. WU Chen*	

Non-executive directors

* Independent non-executive directors

The Company has received annual confirmation from each of the existing independent non-executive directors confirming her/his independence to the Company pursuant to rule 3.13 of the Listing Rules and the Company considers that such directors are independent of the Company.

REPORT OF THE DIRECTORS

DIRECTORS (Continued)

In accordance with Bye-law 99 of the Company's Bye-Laws, Mr. Yu Lin Hoi, Ms. Wei Jingyun and Mr. Wu Chen shall retire at the forthcoming Annual General Meeting and being eligible, Mr. Yu Lin Hoi will offer himself for re-election at the forthcoming Annual General Meeting, but both Ms. Wei Jingyun and Mr. Wu Chen will not offer themselves for re-election at the forthcoming Annual General Meeting.

In accordance with Bye-law 102 of the Company's Bye-Laws, Ms. Chen Dan, Mr. Huang Yaowen and Prof. Jiang Ping may hold office only until the forthcoming Annual General Meeting and being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical Details of Directors

Executive Directors

Mr. Yu Pun Hoi, aged 47, is the Chairman, chairman of executive committee and a controlling shareholder of the Company. Mr. Yu has extensive experience in various industries including internet technology, properties investment and development, and media. Mr. Yu joined the board of directors of the Company ("Board") on 20 September 2000. In addition to Mr. Yu's chairmanship of the Company, he is also the chairman, and chairman of executive committee of Sino-i Technology Limited ("Sino-i"), a listed subsidiary of the Company. Mr. Yu is also a director of all the subsidiaries of the Company. Mr. Yu is the younger brother of Mr. Yu Lin Hoi, a non-executive director of the Company.

Mr. Qin Tian Xiang, aged 40, graduated from the National University of Defense Technology, Electronics Technique Department. Mr. Qin has been in presidential and directorship positions in a number of corporations in the PRC since 1994. Mr. Qin joined the Board in the role of independent non-executive director on 30 September 2004, and was then re-designated as an executive director and appointed as executive committee member and general manager of the Company on 14 February 2006. Mr. Qin is also an executive director and executive committee member of Sino-i.

Ms. Chen Dan, aged 37, graduated from Beijing Finance & Trade College in 1991, and conferred a Bachelor degree in Trade & Economics. Ms. Chen is a registered attorney at law in the PRC, and was working as an attorney prior to joining the Group in October 2000. Ms. Chen has been appointed as a director and general manager of CE Dongli Technology Group Company Limited, a subsidiary of Sino-i, since May 2004. On 14 February 2006, Ms. Chen joined the Board and was appointed as executive committee member of the Company. Ms. Chen is also an executive director, executive committee member and general manager of Sino-i, and holds directorships in 北京華夏大地遠程教育網絡服務有限公司 (Beijing Chinese Dadi Distance Education Company Limited), 北京新網數碼信息技術有限公司 (Beijing Xinet Cyber Information Company Limited) and 廣州漢鑫商務科技有限公司 (Easy-Trade Technology Services Limited), major subsidiaries of the Company and Sino-i.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Directors (Continued)

Non-executive Directors

Mr. Yu Lin Hoi, aged 62, the elder brother of Mr. Yu Pun Hoi, holds a Master's degree in Marine from both Liberia and Canada in 1972 and 1981 respectively, and an MBA in Hong Kong in 2003. Mr. Yu has extensive experience in marketing, management on manufacture and administration on transportation. Mr. Yu joined the Board on 14 January 2002.

Mr. Lam Bing Kwan, aged 56, graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. Mr. Lam had been in senior management positions in the banking and financial industry for more than 10 years before joining the Group. Mr. Lam joined the Board on 20 September 2000, and was re-designated as non-executive director on 2 April 2002. Mr. Lam is also a non-executive director of Sino-i, and an independent non-executive director of Lai Sun Development Company Limited, Lai Fung Holdings Limited, and eForce Holdings Limited.

Independent Non-executive Directors

Mr. Huang Yaowen, aged 35, graduated from South West University of Politics and Laws in the PRC, and was conferred a Bachelor degree in Laws in 1992. Mr. Huang also holds a Master of Laws from Central Parties School in the PRC. Mr. Huang is a registered attorney at law in the PRC, and is taking the EMBA course in China Europe International Business School. Mr. Huang is the executive partner of Kai Wen Law Firm, one of the largest Chinese commercial law firms in the PRC, and is a partner of Kai Yuan Law Firm. On 14 February 2006, Mr. Huang joined the Board and was appointed as chairman of audit committee and remuneration committee of the Company. Mr. Huang is also an independent non-executive director and chairman of audit committee and remuneration committee of Sino-i.

Professor Jiang Ping, aged 75, graduated from Moscow University with a Bachelor degree in Laws in 1956. Prof. Jiang is the lifetime professor of China University of Political Science and Law, and conducts lectures for doctoral degree class in civil and commercial laws. Prof. Jiang is the vice-chairman of China Economic Law Studies Association; president of China Comparative Law Research Centre; chairman of Beijing Arbitration Commission; vice-president of China Consumers' Association; and counsellor and member of committee of experts in China International Economic and Trade Arbitration Commission. Prof. Jiang joined the Board on 14 February 2006 and is also an audit committee member and remuneration committee member of the Company.

Ms. Wei Jingyun, aged 56, obtained the Certificate of Certified Public Accountant issued by the Ministry of Finance of the PRC in 1994, Certificate of Licensed Registered Tax Agent of the PRC in 1998, and Professional Credential for Internal Auditors issued by the China Institute of Internal Audit in 2004. Ms. Wei has been a vice-director of Beijing Zhong De Accounting Office since August 1999, and has pursued her accounting profession in the PRC for over 35 years. Ms. Wei joined the Board on 30 September 2004 and is also an audit committee member and remuneration committee member of the Company.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Directors (Continued)

Mr. Wu Chen, aged 34, graduated from the Law Institute of China Academy of Social Sciences (CASS), Beijing with a Master of Law, and has been a PhD candidate since 2002. Mr. Wu has been a registered attorney at law in the PRC and China enterprise legal counsellor in 1994 and 1996 respectively. Mr. Wu has been the founder partner of Beijing Li He Law Firm since July 2004, and was an attorney at law in some law firms in the PRC in the past 10 years. Mr. Wu joined the Board on 30 September 2004 and is also an audit committee member and remuneration committee member of the Company.

Biographical Details of Senior Management

Mr. YU Fan (aged 38)

Deputy General Manager – Business and Strategic Development
Sino-i Technology Limited

Mr. Yu joined Sino-i in May 2004. Prior to joining Sino-i group, Mr. Yu worked in such large corporations as Founder Group and Hewlett Packard, and has over 16 years' experience in IT industry.

Mr. Yu got a degree of Master of Business Administration from Peking University.

Ms. LIU Rong (aged 34)

Deputy General Manager – Media and Culture
Sino-i Technology Limited

Ms. Liu joined Sino-i in April 2002. Prior to joining the Sino-i group, Ms. Liu worked in Chinese government departments and law firms. Ms. Liu is a qualified lawyer in China.

Ms. Liu was graduated from the Law School of Anhui University in 1993, and obtained a degree of Bachelor of Laws. Ms. Liu got her Master of Laws in 2002 conferred by the Law Institute of Chinese Academy of Social Science.

Mr. XUE Bo Ying (aged 38)

Architectural Design Director
Nan Hai Corporation Limited

Mr. Xue joined the Group in January 2006, responsible for architectural design and its related works for various property projects of the Group in China. Prior to joining the Group, Mr. Xue worked in such senior positions as deputy general manager, senior engineer and architectural design director in both foreign and local Chinese corporations in China. Mr. Xue also worked in Guangzhou City Construction Commission.

Mr. Xue was graduated from Huazhong University of Science and Technology in 1990, and awarded Bachelor of Science in Architecture. Mr. Xue also got his master's degree in architecture from Tsinghua University in 2000. Mr. Xue is a certified first-level architect, and a certified town planner in China.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Biographical Details of Senior Management (Continued)

Mr. LU Kwong Seng (aged 40)

Financial Controller

Shenzhen Nanhai Yitian Realty Company Limited

Mr. Lu joined the Group in 1995, responsible for overall financial management of the Group's subsidiaries in China. In 2005, Mr. Lu was promoted to Financial Controller of Shenzhen Nanhai Yitian Realty Company Limited, a subsidiary of the Company. Mr. Lu has over 10 years' experience in financial management in China.

Dr. ZHANG Bin (aged 40)

Deputy General Manager – Technology Development

Sino-i Technology Limited

Dr. Zhang joined Sino-i in 1999. Prior to joining Sino-i group, Dr. Zhang worked in the positions of chief engineer and deputy general manager, responsible for development of communication systems. In 1996, Dr. Zhang was accredited by Commission of Science Technology and Industry for National Defence as "Senior Engineer".

Dr. Zhang was graduated from the Computer Faculty of The University of Defence Technology in 1994, and awarded a doctorate.

Mr. MAG Chiu Fai (aged 31)

Qualified Accountant

Nan Hai Corporation Limited

Mr. Mag is also the Accounting Manager of the Group. Mr. Mag joined the Group in 2005 and is responsible for the Group's accounting and financial control functions.

Mr. Mag holds a Bachelor degree in Accountancy from The Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 31 December 2005, the interests and short positions of the directors and chief executive of the Company in 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")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise 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 (the "Model Code") were as follows:

The Company

(i) Interests in shares in issue

Name of Director	Number of shares of HK\$0.01 each				Approximate percentage holding
	Personal interest	Corporate Interest	Family Interest	Total Interest	
Yu Pun Hoi ("Mr. Yu")	–	32,403,726,203 (Note 1)	69,326,400 (Note 2)	32,473,052,603	47.64%
Zhang Hong Ren	794,102	–	–	794,102	0.001%

Notes:

1. Out of these 32,403,726,203 shares, 28,661,232,705 shares were held by Mr. Yu through Rosewood Assets Limited, Phippen Limited and First Best Assets Limited, companies wholly-owned by him; and 3,742,493,498 shares were held by Macro Resources Limited, a company indirectly held as to 60% by Mr. Yu.
2. These 69,326,400 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

(ii) Interests in underlying shares

Name of Director	Number of underlying shares*	Nature of Interest	Approximate percentage holding
Zhang Hong Ren	17,500,000	Personal	0.03%
Lam Bing Kwan	25,000,000	Personal	0.04%

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS (Continued)

The Company (Continued)

(ii) Interests in underlying shares (Continued)

* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

Grantee	Date of Grant	Exercise price per share	No. of share options granted	Exercisable period
Zhang Hong Ren	15-12-2005	HK\$0.04	8,750,000	01-01-2006 to 31-12-2007
		HK\$0.04	8,750,000	01-01-2007 to 31-12-2007
Lam Bing Kwan	15-12-2005	HK\$0.04	12,500,000	01-01-2006 to 31-12-2007
		HK\$0.04	12,500,000	01-01-2007 to 31-12-2007

Associated corporation

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company or its controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO, including interests held by the Company in the shares of Sino-i Technology Limited ("Sino-i"), a subsidiary of the Company. Sino-i is a company the shares of which are listed on the Stock Exchange which is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 31 December 2005, the interests of the directors of the Company in shares and underlying shares of Sino-i were as follows:

(i) Interests in shares in issue

Name of Director	Number of shares of HK\$0.01 each				Approximate percentage holding
	Personal interest	Corporate Interest	Family Interest	Total Interest	
Mr. Yu	–	12,515,795,316 (Note 1)	44,000,000 (Note 2)	12,559,795,316	63.07%
Zhang Hong Ren	504,000	–	–	504,000	0.003%

Notes:

- These 12,515,795,316 shares were held by the Company and Mr. Yu was taken to be interested in these shares by virtue of his controlling interests in shares of the Company. Out of all such shares 3,698,333,000 shares were held by View Power Investments Limited, 4,509,992,316 shares by Goalrise Investments Limited and 4,307,470,000 shares by Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of the Company.
- These 44,000,000 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS (Continued)

Associated corporation (Continued)

(ii) *Interests in underlying shares*

Name of Director	Number of underlying shares*	Nature of Interest	Approximate percentage holding
Zhang Hong Ren	10,000,000	Personal	0.05%
Lam Bing Kwan	18,000,000	Personal	0.09%

* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

Grantee	Date of Grant	Exercise price per share	No. of share options granted	Exercisable period
Zhang Hong Ren	12-11-2004	HK\$0.16	5,000,000	01-07-2005 to 30-6-2008
		HK\$0.16	5,000,000	01-07-2006 to 30-6-2008
Lam Bing Kwan	12-11-2004	HK\$0.16	9,000,000	01-07-2005 to 30-6-2008
		HK\$0.16	9,000,000	01-07-2006 to 30-6-2008

Save as disclosed above, as at 31 December 2005, none of the directors and chief executive of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board. A summary of the Scheme is as follows:

(1) Purpose

The purpose of the Scheme is to provide incentives or rewards to participants for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which any member of the Group holds any equity interests (the "Invested Entity").

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

(2) Participants

The participants include:

- a. any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity;
- b. any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity;
- c. any supplier of goods or services to any member of the Group or any Invested Entity;
- d. any customer of the Group or any Invested Entity;
- e. any person or entity that provides research, development or other technological support or other services to the Group or any Invested Entity;
- f. any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- g. any ex-employee who has contributed or may contribute to the development and growth of the Group and any Invested Entity.

(3) Total number of share options available for issue under the Scheme and percentage of issued share capital as at 31 December 2005

The total number of share options available for issue under the Scheme is 468,625,000 shares representing approximately 0.69% of the issued share capital as at 31 December 2005.

(4) Maximum entitlement of each participant

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company in issue. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the Scheme.

(5) The period within which the shares must be taken up under an option

Not applicable.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

(6) Minimum period for exercising an option

The board of directors of the Company may at its discretion determine the minimum period for which an option must be held before it can be exercised.

(7) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be repaid

The option shall be deemed to have been accepted when the duplicate letter duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company. To the extent that the offer is not accepted within 28 days in the manner aforesaid, it will be deemed to have been irrevocably declined and lapsed automatically.

(8) Basis of determining the subscription price

The subscription price for shares under the Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the share.

(9) Remaining life of the Scheme

The Scheme will remain in force for a period of 10 years commencing on 29 August 2002 up to 28 August 2012.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Details of the options to subscribe for shares of the Company granted to participants pursuant to the Scheme and their movements during the year under review are as follows:

Grantee	Exercisable period	Number of share options				Outstanding as at 31 December 2005	Approximate percentage of total issued share capital of the Company
		Outstanding as at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year		
Directors							
Zhang Hong Ren	1-1-2006 to 31-12-2007	–	8,750,000	–	–	8,750,000	0.013%
	1-1-2007 to 31-12-2007	–	8,750,000	–	–	8,750,000	0.013%
Lam Bing Kwan	1-1-2006 to 31-12-2007	–	12,500,000	–	–	12,500,000	0.018%
	1-1-2007 to 31-12-2007	–	12,500,000	–	–	12,500,000	0.018%
Employees							
In aggregate	1-1-2006 to 31-12-2007	–	213,400,000	–	–	213,400,000	0.31%
	1-1-2007 to 31-12-2007	–	212,725,000	–	–	212,725,000	0.31%
			468,625,000			468,625,000	

Notes:

1. These share options were granted on 15 December 2005 and are exercisable at HK\$0.04 per share.
2. The share options represent personal interest held by the relevant participants as beneficial owner.
3. The closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on 14 December 2005, being the trading day immediately preceding the date of grant, was HK\$0.039.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Except for the Scheme disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than the statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS (Continued)

No 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.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which any directors 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2005, those persons (other than directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO	Nature of interest	Number of shares in issue subject to long position	Approximate percentage of issued share capital of the Company	Notes
Kung Ai Ming	Family and Corporate interest	32,473,052,603	47.64%	1
Rosewood Assets Limited	Beneficial interest	6,356,000,210	9.32%	4
Actinna Development Limited	Corporate interest	14,820,245,497	21.74%	4
Righteous International Limited	Corporate interest	3,742,493,498	5.49%	4
Macro Resources Limited	Beneficial interest	3,742,493,498	5.49%	3 & 4
First Best Assets Limited	Beneficial interest	7,484,986,998	10.98%	4
CITIC Group	Corporate interest	12,256,228,252	17.98%	2 & 3
	Security interest	21,619,587,934	31.72%	
CITIC Capital Markets Holdings Limited	Corporate interest	1,562,165,356	2.29%	2
	Security interest	21,619,587,934	31.72%	
CITIC International Financial Holdings Limited	Corporate interest	1,562,165,356	2.29%	2
	Security interest	21,619,587,934	31.72%	
CITIC Pacific Limited	Corporate interest	1,562,165,356	2.29%	2
	Security interest	21,619,587,934	31.72%	
Golden Gateway Enterprises Inc.	Corporate interest	1,562,165,356	2.29%	2
	Security interest	21,619,587,934	31.72%	

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS (Continued)

Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO	Nature of interest	Number of shares in issue subject to long position	Approximate percentage of issued share capital of the Company	Notes
Forever Glory Holdings Ltd.	Corporate interest	1,562,165,356	2.29%	2
	Security interest	21,619,587,934	31.72%	
Lim Siew Choon	Corporate interest	7,484,986,997	10.98%	5
Empire Gate Industrial Limited	Beneficial interest	7,484,986,997	10.98%	5
Lee Tat Man	Beneficial interest	250,000,000	0.37%	
	Security interest	7,700,000,000	11.30%	

Notes:

- Ms. Kung Ai Ming is the spouse of Mr. Yu and was taken to be interested in those shares in which Mr. Yu and herself (together with their respective corporate interests) held an interest.
- CITIC Capital Markets Holdings Limited was indirectly interested in 23,181,753,290 shares. CITIC Capital Markets Holdings Limited is indirectly held as to 50% by CITIC Pacific Limited and as to 50% by CITIC International Financial Holdings Limited. Both CITIC International Financial Holdings Limited and CITIC Pacific Limited are companies the shares of which are listed on The Stock Exchange of Hong Kong Limited and in which CITIC Group controls an approximately 56% and 28.8% interests respectively. Both Forever Glory Holdings Ltd. and Golden Gateway Enterprises Inc. are wholly-owned subsidiaries of CITIC Pacific Limited and are companies through which CITIC Pacific Limited holds its 50% interest in CITIC Capital Markets Holdings Limited. The interests held by CITIC Capital Markets Holdings Limited was included as part of the interests of Forever Glory Holdings Ltd., Golden Gateway Enterprises Inc., CITIC Pacific Limited, CITIC International Financial Holdings Limited and CITIC Group.
- CITIC Group was indirectly interested in 33,875,816,186 shares, of which interests in 23,181,753,290 shares were held through its interest in CITIC Capital Markets Holdings Limited and interests in the remaining 10,694,062,896 shares were held by its wholly-owned subsidiaries, Staverley Assets Ltd. and 中信信息科技投資有限公司, and its 40% owned company, Macro Resources Limited.
- Rosewood Assets Limited, Actinna Development Limited, Righteous International Limited and First Best Assets Limited are companies wholly owned by Mr. Yu and Macro Resources Limited is held as to 60% by Righteous International Limited. Their interests in shares are disclosed as the corporate interests of Mr. Yu above. Interest held by Macro Resources Limited was counted as the interest of Righteous International Limited. The interest of Actinna Development Limited is held through Pippen Limited, its wholly-owned subsidiary.
- Empire Gate Industrial Limited is wholly-owned by Mr. Lim Siew Choon. Its interest in shares was included as interest held by Mr. Lim Siew Choon.

Save as disclosed above, as at 31 December 2005, no person (other than a director and chief executive of the Company) had notified to the Company any interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Company and the Group are set out in note 40 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the law in Bermuda.

PURCHASE, SALE OR REDEMPTION OF 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 or redeemed any of the Company's shares during the year.

PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the directors, the Company has maintained during the year sufficient public float as required under the Listing Rules.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 30 to 35.

AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive directors of the Company. On 14 February 2006, Mr. Qin Tian Xiang ceased to be the chairman of the Audit Committee due to his re-designation as an executive director of the Company and Mr. Huang Yaowen and Prof. Jiang Ping were appointed independent non-executive directors of the Company and members of the Audit Committee. The existing Audit Committee consists of four independent non-executive directors of the Company, namely Mr. Huang Yaowen, Prof. Jiang Ping, Ms. Wei Jingyun and Mr. Wu Chen. The Audit Committee has reviewed with the auditors of the Company and management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited accounts for the year ended 31 December 2005.

REPORT OF THE DIRECTORS

AUDITORS

The financial statements for the year have been audited by Messrs. Grant Thornton who retire and, being eligible, offer themselves for reappointment. A resolution will be proposed at the forthcoming annual general meeting for the reappointment of auditors of the Company.

On behalf of the Board

Yu Pun Hoi

Chairman

Hong Kong, 20 April 2006