

REPORT OF THE DIRECTORS

The directors (“Directors” or individually, the “Director”) of MEXAN LIMITED (the “Company”) submit their report together with the audited financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. During the year, the principal activities of its subsidiaries, associated company and jointly controlled entity include property investment, hotel operation, investment holding and toll road operation. Further details of subsidiaries, associated company and jointly controlled entity during the year ended 31 March 2006 are set out in notes 22, 20 and 21 to the financial statements respectively.

An analysis of turnover and contribution to results from operations of the Company and its subsidiaries (the “Group”) for the year by principal activities is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 29.

The state of affairs of the Group and the Company as at 31 March 2006 are set out in the balance sheets on pages 30 to 32.

The cash flows of the Group are set out in the consolidated cash flow statement on pages 34 to 36.

As at 31 March 2006, the distributable reserves of the Company, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$738,445,000 (2005 (restated): HK\$1,410,832,000).

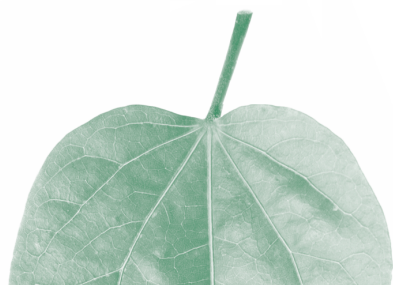
A dividend of HK\$0.19 per fully paid share (total dividend: HK\$249,075,796) was distributed to shareholders of the Company on 23 May 2005. The Directors do not recommend payment of a final dividend for the year ended 31 March 2006.

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 95.

PROPERTY, PLANT AND EQUIPMENT

Details of the Group’s hotel property and movements in other property, plant and equipment during the year are set out in note 16 to the financial statements.





REPORT OF THE DIRECTORS

PRINCIPAL PROPERTIES

Details of the Group's principal hotel and investment properties are set out on page 96.

SHARE CAPITAL

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

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 in Bermuda.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year.

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

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Turnover attributable to the largest and the five largest customers accounted for 14% and 42% respectively of the turnover of the Group for the year. There was no purchase incurred during the year.

None of the Directors, their associates or any shareholders (who, to the knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the major customers noted above.

BANK LOANS

Particulars of the Group's bank loans are set out in note 32 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Lau Kan Shan (*Chairman*)

Tse On Kin (*Managing Director*)

Ching Yung

Non-Executive Director:

Leung Heung Ying (resigned on 4 October 2005)

Independent Non-Executive Directors:

Chan Wai Dune

Lau Wai

Tong Kwai Lai

In accordance with Bye-law 87 of the Company's Bye-laws, Ms. Ching Yung shall retire by rotation and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

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

The Company has received from each of the Independent Non-Executive Directors their annual confirmations of independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").





REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Company as at the date of this report are set out below:

Executive Directors

Lau Kan Shan, aged 49, has been a Director since June 2003 and appointed the Chairman of the Board in July 2003. He had worked in various trading companies in the PRC for approximately eight years before he started his own trading business in Hong Kong in the 1980s. Mr. Lau is currently engaged in a wide variety of businesses including PRC highway investment, highway infrastructure construction and related businesses, real estate investment and financial services. Mr. Lau is a director of Mexan International Limited and a number of other companies. He is also a director of Mexan Group Limited, which has an interest in the shares of the Company, which falls to be disclosed under the provision of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”).

Tse On Kin, aged 44, has been a Director and the Managing Director of the Company since March 2005. Mr. Tse has over 17 years of experience in corporate planning, operation and human resources and new markets development. Mr. Tse has a Bachelor Degree in Public Policy and Administration from York University in Canada. He is currently also the vice chairman and chief executive officer of Great Wall Cybertech Limited (“Great Wall”) and the chairman of China Sciences Conservational Power Limited (“China Sciences”). Both Great Wall and China Sciences are companies whose shares are listed in the Stock Exchange.

Ching Yung, aged 47, has been a Director since June 2003. She has been the assistant to Mr. Lau Kan Shan since 1991 prior to joining the Company. Ms. Ching has over twelve years experience in shipping, sales, accounting and administration.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent Non-Executive Directors

Chan Wai Dune, aged 53, has been a Director since September 2004. He has over 25 years of experience in the finance sector, particularly in auditing and taxation areas. He is a certified public accountant and is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Chan is currently a member of CPPCC of Guangzhou Municipal Committee (廣州市政協委員會) and a member of the Executive Council of China Overseas Friendship Association (中華海外聯誼會). He was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region. Mr. Chan is currently the managing director of CCIF CPA Limited.

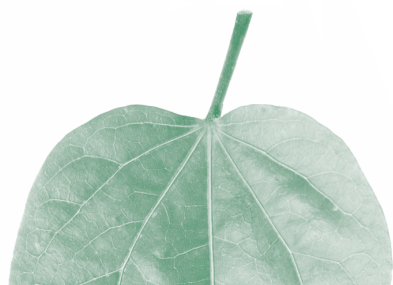
Mr. Chan currently also serves as an independent non-executive director of Chuang's China Investments Limited, Hualing Holdings Limited, Hunan Nonferrous Metals Corporation Limited, Jinheng Automotive Safety Technology Holdings Limited, Minmetals Resources Limited, Sam Woo Holdings Limited, Sino Union Petroleum & Chemical International Limited and Zhongda International Holdings Limited.

Lau Wai, aged 31, has been a Director since June 2003. He is the director of Point Best International Limited, which is engaged in the trading of luxury automobiles in the PRC. Mr. Lau, after graduating from Hong Kong University of Science and Technology with a bachelor honours degree in 1997, worked for Epson Hong Kong Ltd. and PCCW Limited.

Tong Kwai Lai, aged 46, has been a Director since November 2004. He has over 22 years of experience in directing and producing films and is a Hong Kong leading action director, producer, stunt choreographer and script writer. Mr. Tong directed a number of famous movies and TV series which included Police Story III: Super Cop, Rumble in the Bronx, First Strike and Martial Law for CBS. Recently, the Asian Business Association and the "Media Achievement Award" from MANAA presented Mr. Tong with an "Excellence in Entertainment Leadership Award" for his contributions to the Asian American market.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions", no contracts of significance in relation to the Company's business to which the Company, its subsidiaries, holding companies 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

SHARE OPTION SCHEME

On 27 September 2004, the Company adopted a new share option scheme (the “Scheme”) which is in compliance with Chapter 17 of the Listing Rules. No options have been granted under the Scheme during the period from the date of adoption up to the date of this report.

Below is a summary of the principal terms of the Scheme:

1. Purpose of the Scheme

To enable the Group and any entity in which any member of the Group holds an equity interest (the “Invested Entity”) to recruit and retain high caliber employees and attract human resources that are valuable to the Group or the Invested Entity, to recognize the significant contributions of the participants to the growth of the Group or the Invested Entities by rewarding them with opportunities to obtain ownership interest in the Company and to further motivate and give incentives to the participants to continue to contribute to the long term success and prosperity of the Group or the Invested Entity
2. Participants of the Scheme

Any participant (including any director or employees, any consultant, advisors or agent engaged by or any vendor, supplier of goods or services or customer of or to any member(s) of the Group or any Invested Entity) as the Board may in its absolute discretion select, having regard to each person’s qualification, skills, background, experience, service records and/or contribution or potential value to the relevant member(s) of the Group or any Invested Entity
3. Maximum number of shares

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed thirty (30) per cent of the share capital of the Company from time to time

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

- | | | |
|----|---|--|
| 4. | Total number of shares available for issue upon exercise of all options under the Scheme | 131,092,524 shares unless shareholders' approval has been obtained according to the requirements of the Listing Rules in force, being 10% of the issued share capital of the Company at the date of approval of the Scheme by the shareholders of the Company |
| 5. | Maximum entitlement of each participant under the Scheme | The total number of shares issued and to be issued upon exercise of the options granted to each participant under the Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed one (1) per cent of the issued share capital of the Company unless the same is approved by the shareholders of the Company in general meeting |
| 6. | the period within which the shares must be taken up under an option | The option period shall be determined by the Board upon grant of each option, provided that it shall not exceed a period of ten (10) years commencing on the date on which the Board grants the options or such later date as the Board may decide |
| 7. | the minimum period for which an option must be held before it can be exercised | Not applicable |
| 8. | 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 paid | The offer of an option made in accordance with the Scheme may be accepted within ten (10) business days from the date of offer and the amount payable on acceptance of the option is HK\$1.00 |





REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

9. the basis of determining the subscription price

The subscription price shall be determined by the Board and shall not be less than the highest of:

- (a) the official closing price of the shares as stated in daily quotations sheet of the Stock Exchange on the date of offer of the relevant option;
- (b) the average of the official closing price of the shares as stated in daily quotations sheets of the Stock Exchange for the five (5) business days immediately preceding the date of offer of the relevant option; and
- (c) the normal value of a share of the Company

10. the remaining life of the Scheme

The Scheme was adopted on 27 September 2004 and shall be valid and effective for a period of ten (10) years commencing from the date of adoption

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

(i) Long positions in shares of the Company

Name of Director	No. of shares of HK\$0.10 each held	Capacity and nature of interest	Approximate shareholding percentage (%)
Lau Kan Shan (Note i)	964,548,303 (Note ii)	Interest of controlled corporation	73.58

Notes:

- i. A substantial shareholder of the Company.
- ii. Such shares were held by Mexan Group Limited and Mr. Lau Kan Shan was taken to have an interest in such shares by virtue of the SFO since he was entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of Mexan Group Limited.

(ii) Long positions in shares of associated corporation

Name of associated corporation	Name of Director	No. of shares of US\$1.00 each held	Capacity and nature of interest	Shareholding percentage (%)
Mexan Group Limited	Lau Kan Shan	100	Beneficial owner	100

Save as disclosed above and other than the nominee share in a subsidiary held in trust for the Company by a Director, as at 31 March 2006, none of the Directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.





REPORT OF THE DIRECTORS

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed under the section headed "Share Option Scheme", at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following Director was considered to have interests in the following businesses ("Competing Business") which compete or are likely to compete, either directly or indirectly, with the businesses of the Group as defined in the Listing Rules as set out below:

Name of Director	Name of entity of the Competing Business	Description of the Competing Business	Nature of interest of the Director in the entity
Lau Kan Shan	Mexan International Limited	Property investment	As substantial shareholder and director
	上海茂盛企業發展 (集團)有限公司	Property development and investment	As substantial shareholder and director
	上海滬青平高速公路 建設發展有限公司	Toll road investment	As substantial shareholder and director
	紹興市甬金高速公路 建設發展有限公司	Toll road investment	As substantial shareholder

The Director interested in the above businesses will, as and when required under the Company's Bye-laws, abstain from voting on any resolution of the Board in respect of any arrangement or proposal in which he or any of his associates have a material interest.

REPORT OF THE DIRECTORS

PERSONS WHO HAD AN INTEREST OR A SHORT POSITION WHICH WAS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

As at 31 March 2006, the following persons, other than the Directors whose interests are disclosed above, who had an interest or a short position in the shares and 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	Long/short position	No. of shares of HK\$0.10 each held	Capacity and nature of interest	Approximate shareholding percentage (%)
Mexan Group Limited	Long	964,548,303 (Note i)	Beneficial owner	73.58
Xia He Na (Note ii)	Long	964,548,303 (Note ii)	Interest of spouse	73.58

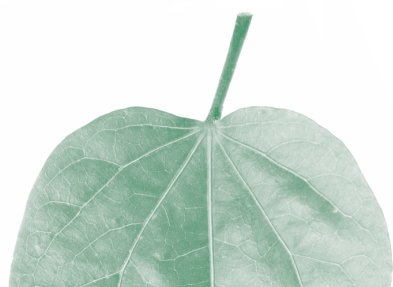
Notes:

- i. Mr. Lau Kan Shan is deemed to be interested in the 964,548,303 shares of the Company held by Mexan Group Limited as Mr. Lau Kan Shan is entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of Mexan Group Limited.
- ii. Ms. Xia He Na (formerly known as Ms. Ha Ming Kuen), the spouse of Mr. Lau Kan Shan, is deemed to be interested in Mr. Lau's shares which represented the same parcel of shares of the Company as held by Mexan Group Limited.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 March 2006, which also constitute connected and continuing connected transactions under the Listing Rules, are disclosed in note 38 to the financial statements. The other connected and continuing connected transactions during the year ended 31 March 2006, which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules are as follows:

1. Portfield Limited ("Portfield"), the Company's indirect wholly owned subsidiary, acquired a total of 55.1% equity interest in 寧波北侖港高速公路有限公司 (Ningbo Beilun Port Expressway Company Limited) ("Beilun Company") from the associates of Mr. Lau Kan Shan ("Mr. Lau") at an aggregate consideration of HK\$530,000,000 (the "Acquisition"). Details of the Acquisition have been set out in the Company's announcement dated 31 August 2005 and the Company's circular dated 14 November 2005 ("Circular"). In a Special General Meeting held on 30 November 2005, the Acquisition and transactions contemplated thereunder were duly approved by independent shareholders by way of poll. Results of the Special General Meeting were published in the Company's announcement dated 30 November 2005 and the Acquisition was completed on 23 December 2005.





REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

2. Beilun Company is a wholly owned subsidiary of the Company while 上海茂盛企業發展(集團)有限公司 (Shanghai Mexan Enterprise Development (Group) Company Limited) (“Shanghai Mexan”) is beneficially owned as to approximately 74.7% by Mr. Lau. On 23 December 2005, Beilun Company and Shanghai Mexan as manager entered into a management agreement (as amended). Accordingly, the transactions contemplated under the management agreement (as amended) in respect of the management and operation of the Ningbo Beilun Port Expressway constituted continuing connected transactions pursuant to Chapter 14A of the Listing Rules. Details of the management agreement (as amended) have been set out in the Company’s announcement dated 31 August 2005 and the Company’s circular dated 14 November 2005 (“Circular”). In a Special General Meeting held on 30 November 2005, the management agreement (as amended) and transactions contemplated thereunder including (i) the management of the Ningbo Beilun Port Expressway; (ii) the reduction of the term of the management agreement from 24 years to 3 years; and (iii) the revised repayment terms in respect of the prepaid management fees (i.e. the management fee of RMB300 million for the original 24-year period which has been prepaid to Shanghai Mexan (the “Prepayment”) will be reduced to RMB37.5 million as a result of the term of the management agreement being reduced to 3 years and Shanghai Mexan will repay RMB262.5 million to Beilun Company upon the expiry of the management agreement, which Prepayment would also constitute a financial assistance by the Group to Shanghai Mexan under the Listing Rules and be a connected transaction of the Company, upon completion of the acquisition (as mentioned in item (1) above) were duly approved by independent shareholders by way of poll. Results of the Special General Meeting were published in the Company’s announcement dated 30 November 2005. As at the balance sheet date, the balance of the Prepayment amounted to HK\$269,202,000 (equivalent to RMB278,130,000).

The Independent Non-Executive Directors of the Company have reviewed and confirmed that the continuing connected transactions arising from the management agreement (as amended) during the year had been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the continuing connected transactions arising from the management agreement (as amended) and confirmed that the transactions (i) had received the approval of the board of directors of the Company; (ii) had been entered into in accordance with the above management agreement (as amended) governing the transactions; and (iii) did not exceed the annual cap of RMB12.5 million as disclosed in the announcement of the Company dated 31 August 2005.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

3. Mexan Resources Limited (“MRL”) is an indirect wholly owned subsidiary of the Company. Mexan International Limited (“MIL”) is a company beneficially owned as to approximately 95% by Mr. Lau and his associates. MRL as tenant and MIL as landlord entered into a tenancy agreement (the “Tenancy Agreement”) on 30 September 2003 of which details are set out below:

Property: certain portions of 16th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, certain furniture and fixtures and three car parks

Period: 1 October 2003 to 30 September 2006

Rental: a monthly rent of HK\$160,000 (inclusive of management fee, rates and government rent and all charges for gas, water and electricity)

As stated in the Company’s announcement dated 2 October 2003, the Company was granted conditional waiver by the Stock Exchange from strict compliance with the disclosure requirement of the Listing Rules in respect of the continuing connected transaction arising from the Tenancy Agreement for a period up to 30 September 2006.

The Independent Non-Executive Directors of the Company had reviewed the transaction arising from the Tenancy Agreement for the year ended 31 March 2006 and confirmed that the transaction was (a) entered into by the Group in the ordinary and usual course of business; (b) conducted on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; (c) entered into in accordance with the terms of the Tenancy Agreement; and (d) within the annual aggregate value and did not exceed the higher of HK\$3,000,000 or 0.1% of the net tangible assets of the Company for the year ended 31 March 2006.

The auditors of the Company have reviewed the continuing connected transaction arising from the Tenancy Agreement and confirmed that (i) the transaction had received the approval of the board of directors of the Company; (ii) the transaction was entered into in accordance with the terms of the Tenancy Agreement; and (iii) within the annual aggregate value pursuant to the Tenancy Agreement and did not exceed the higher of HK\$3,000,000 or 0.1% of the net tangible assets of the Company for the year ended 31 March 2006.





REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

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.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-Executive Directors namely, Mr. Chan Wai Dune, Mr. Lau Wai and Mr. Tong Kwai Lai. The Audit Committee has reviewed with the Group's auditors, Horwath Hong Kong CPA Limited ("Horwath"), the audited financial statements for the year ended 31 March 2006 and has also discussed auditing, internal control and financial reporting matters including the review of accounting practices and principles adopted by the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed amount of public float as required under the Listing Rules.

PENSION SCHEME

Details of the Group's pension scheme are set out in note 10 to the financial statements.

AUDITORS

The financial statements have been audited by Horwath who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Tse On Kin
Managing Director

Hong Kong, 19 July 2006