



Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements of Guangnan (Holdings) Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The subsidiaries of the Company are primarily engaged in manufacturing and sales of tinplates and related products, development and leasing of properties, distribution of live and fresh foodstuffs and foodstuffs trading. The Group’s principal activities are mainly carried out in Hong Kong and in the Guangdong Province of the PRC.

The analysis of the Group’s turnover by principal activities, the Group’s operating result by business segments and by geographical segments during the financial year are respectively set out in notes 2 and 12 on the financial statements.

RESULTS AND DIVIDENDS

The Group’s consolidated results for the year ended 31 December 2006 and the state of the Company’s and the Group’s affairs as at that date are set out in the financial statements on pages 37 to 104.

An interim dividend of HK1.5 cents (2005: Nil) per share was paid on 18 October 2006. The Directors recommended the payment of a final dividend of HK2.0 cents (2005: HK1.5 cents) per share for the year ended 31 December 2006.

The proposed final dividend, if approved at the 2007 Annual General Meeting of the Company, is expected to be paid on 29 June 2007 to shareholders whose names appear on the register of members of the Company on 7 June 2007.

FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in notes 13(a) and 13(b) on the financial statements respectively.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company’s principal subsidiaries and associates as at 31 December 2006 are set out in notes 36 and 38 on the financial statements respectively.

BORROWINGS AND INTEREST CAPITALISED

Details of borrowings of the Group are set out in note 22 on the financial statements. No interest was capitalised by the Group during the year.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25(c) on the financial statements.

RESERVES

Consolidated profits attributable to equity shareholders of the Company, before dividend, of HK\$121,320,000 (2005: HK\$175,759,000) have been transferred to reserves. Other movements in the reserves of the Group and the Company during the year are set out in notes 25(a) and 25(b) on the financial statements respectively.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in note 30 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

The largest supplier for the year ended 31 December 2006 represented 58.4% of the Group's total purchases (not including purchases of capital nature), and the combined total of the five largest suppliers accounted for 68.8% of the Group's total purchases for the year.

At no time during the year have the directors, their associates or any shareholder of the Company, who to the knowledge of the Directors, owns more than 5% of the Company's share capital, had any interests in these major suppliers.

PROPERTIES

Particulars of the major properties of the Group are set out on page 108.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years ended 31 December 2006 is set out on pages 109 and 110.



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DIRECTORS

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

Executive Directors

LIANG Jiang
TAN Yunbiao
TSANG Hon Nam

Non-executive Directors

ZHAO Leili
LUO Fanyu
DONG Decai (appointed on 18 December 2006)
HOU Zhuobing (appointed on 8 August 2006)
LIANG Jiangqin (resigned on 8 August 2006)

Independent Non-executive Directors

Gerard Joseph McMAHON
TAM Wai Chu, Maria
LI Kar Keung, Caspar

The Company has received confirmation of independence from the Independent Non-executive Directors, namely Mr. Gerard Joseph McMAHON, Miss TAM Wai Chu, Maria and Mr. LI Kar Keung, Caspar. The Company and its Nomination Committee consider each of the Independent Non-executive Directors to be independent.

RETIREMENT AND RE-ELECTION OF DIRECTORS

In accordance with Article 92 of the Company's Articles of Association, Mr. DONG Decai and Miss HOU Zhuobing would retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. ZHAO Leili, Gerard Joseph McMAHON and LI Kar Keung, Caspar would retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Rules Governing The Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

(I) Long positions in shares

(i) The Company

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jiang	230,000	0.026%
Zhao Leili	218,000	0.024%

Note: The number of ordinary shares of the Company in issue as at 31 December 2006 was 901,583,285.

(ii) Kingway Brewery Holdings Limited

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Luo Fanyu	70,000	0.005%

Note: The number of ordinary shares of Kingway Brewery Holdings Limited in issue as at 31 December 2006 was 1,396,368,000.



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(iii) Guangdong Tannery Limited

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Luo Fanyu	70,000	0.013%

Note: The number of ordinary shares of Guangdong Tannery Limited in issue as at 31 December 2006 was 524,154,000.

(II) Long positions in options relating to ordinary shares of the Company

Number of Director	Date of share options granted [#]	Number of share options		Exercisable period of share options*	Total consideration paid for share options granted (HK\$)	Price per share to be paid on exercise of share options (HK\$)	During the year			Number of share options held on 31.12.2006 ('000)	Share price	
		Held on 01.01.2006 ('000)	Granted during the year ('000)				Number of share options				At share options grant date** (HK\$)	At share options exercise date (HK\$)
							Exercised ('000)	Lapsed ('000)	Cancelled ('000)			
Liang Jiang	06.02.2004	2,000	—	06.05.2004 to 05.05.2009	10	1.582	—	—	—	2,000	—	—
	09.03.2006	—	2,000	09.06.2006 to 08.03.2016	1	1.660	—	—	—	2,000	1.610	—
Tan Yunbiao	06.02.2004	1,500	—	06.05.2004 to 05.05.2009	10	1.582	—	—	—	1,500	—	—
	09.03.2006	—	2,000	09.06.2006 to 08.03.2016	1	1.660	—	—	—	2,000	1.610	—
Tsang Hon Nam	09.03.2006	—	300	09.06.2006 to 08.03.2016	1	1.660	—	—	—	300	1.610	—
Zhao Leili	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—
Luo Fanyu	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—
Gerard Joseph McMahon	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—
Tam Wai Chu, Maria	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—
Li Kar Keung, Caspar	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—

The vesting period of the share options is from the date of grant until the commencement of the exercisable period or the grantee's completion of half year's full time service with the Company or its subsidiaries, whichever is the later.

- * If the last day of any of the option periods is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.
- ** The share price disclosed as “At share options grant date” is the closing price of the shares of the Company quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the share options.

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company held by the Directors in trust for the Company, as at 31 December 2006, none of the Directors and chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) 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 the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Listing Rules.

SHARE OPTION SCHEMES OF THE COMPANY

On 11 June 2004, the Company adopted a new share option scheme (“2004 Share Option Scheme”) and terminated its share option scheme that was adopted on 24 August 2001 (“2001 Share Option Scheme”). Options granted prior to the termination of the 2001 Share Option Scheme remain valid until lapsed.

2001 Share Option Scheme

Pursuant to the 2001 Share Option Scheme, the exercise price of the options under the Scheme is determinable by the Directors in their discretion, but may not be less than the higher of (i) the nominal value of the shares of the Company; and (ii) 80% of the average of the closing prices per share as stated in the Stock Exchange’s quotation sheets for the five trading days immediately preceding the date of grant of an option.

Pursuant to the 2001 Share Option Scheme, the Directors are authorized, at their discretion, to invite full-time employees of the Company and its subsidiaries, including Executive Directors but excluding Non-executive Directors to take up options to subscribe for shares of the Company. A grant of options under the 2001 Share Option Scheme may be accepted in writing and upon payment of a consideration of HK\$10 in total by the grantee to the Company within 21 days from the date of grant. Options granted under the 2001 Share Option Scheme is exercisable within a period of 5 years commencing on the business day immediately following the expiry of 3 months after the date of grant and expiring at the close of business on the last business day of such 5 year period.



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2004 Share Option Scheme

The purpose of the 2004 Share Option Scheme of the Company is to enable the Company to have a new scheme with terms compatible with modern practice to recruit and retain quality employees to serve the Group on a long-term basis, to maintain good relationships with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the 2004 Share Option Scheme include the Company's Directors (including Non-executive and Independent Non-executive Directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The 2004 Share Option Scheme unless otherwise terminated or amended, will remain in force for 10 years from 25 June 2004.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be granted under the 2004 Share Option Scheme and any other share option schemes of the Company may not exceed 30% of its shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the 2004 Share Option Scheme and any other share option schemes of the Company may not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the 2004 Share Option Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the 2004 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant may not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

The grant of share options under the 2004 Share Option Scheme may be accepted within 14 days from the date of grant upon payment of a consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the Directors of the Company, commences after a certain vesting period and ends on a date which is not more than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the Directors, but shall at least be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

During the year, 3,470,000 options and 120,000 options were lapsed under the 2001 and 2004 Share Option Schemes respectively. During the year, 11,770,000 options were granted under the 2004 Share Option Scheme. As at 31 December 2006, options were outstanding under the 2001 and 2004 Share Option Schemes entitling the holders to subscribe for 8,320,000 shares and 11,650,000 shares of the Company respectively.

As at 31 December 2006, save as disclosed in the section of “Long positions in options relating to ordinary shares of the Company”, certain employees of the Company had the following interests in rights to subscribe for shares of the Company granted under the 2001 and 2004 Share Option Schemes. Each option gives the holder the right to subscribe for one share of par value HK\$0.5 each of the Company. Further details are set out in note 24 on the financial statements.

Category	Date of share options granted [#]	Number of share options		Exercisable period of share options*	Total consideration paid for share options granted (HK\$)	Price per share to be paid on exercise of share options (HK\$)	During the year			Number of share options held on 31.12.2006 ('000)	Share price	
		Held on 01.01.2006 ('000)	Granted during the year ('000)				Number of share options				At share options grant date** (HK\$)	At share options exercise date (HK\$)
							Exercised	Lapsed	Cancelled			
Employees and other participants	24.08.2001	3,350	—	26.11.2001 to 25.11.2006	10	1,495	—	3,350	—	—	—	—
	06.02.2004	4,940	—	06.05.2004 to 05.05.2009	10	1,582	—	120	—	4,820	—	—
	09.03.2006	—	6,470	09.06.2006 to 08.03.2016	1	1,660	—	120	—	6,350	1,610	—

The vesting period of the share options is from the date of grant until the commencement of the exercisable period or the grantee's completion of half year's full time service with the Company or its subsidiaries, whichever is the later.

* If the last day of any of the option periods is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.

** The share price disclosed as “At share options grant date” is the closing price of the shares of the Company quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the share options.

Note: The underlying shares of the outstanding share options under the 2004 Share Option Scheme as at 31 December 2006 represent 2.21% of the issued share capital of the Company.

Details of share options granted during the year:

Date of grant:	9 March 2006
Vesting period:	9 March 2006 to 8 June 2006
Exercise period:	9 June 2006 to 8 March 2016
Exercise price:	HK\$1.66 per share
Number of share options granted:	11,770,000 [^]



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The fair value of share options granted on 9 March 2006 was HK\$3,425,603 which was determined using binomial lattice option pricing model^{^^}, and was recognised in the consolidated profit and loss account for the year. The weighted average fair value of share options granted during the year and the respective inputs and assumptions to the model were as follows:

Weighted average fair value of share option:	HK\$0.29 per share
Risk-free interest rate:	4.444% [@] , being the approximate yield of 10-year Exchange Fund Note traded on 9 March 2006
Expected volatility:	78%, being the annualised volatility of the closing price of the ordinary shares of the Company from 9 March 2005 to 9 March 2006
Expected dividend yield:	2.564%, being historical dividend yield
Expected life of share options:	10 years
Assumptions:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period from 9 March 2005 to 9 March 2006.

Effects of early exercise factors were also considered in calculating the fair value of share options.

[^] No forfeiture clause was contained in the relevant share option scheme.

^{^^} In prior years, in order to comply with Rule 17.08 of the Listing Rules, Black-Scholes option pricing model was adopted by the Company to calculate the theoretical value of share options granted for disclosure purpose only. With effect from 1 January 2005, in order to comply with Hong Kong Financial Reporting Standards No. 2, "Share-based payment", the Group has adopted a new policy for employee share options. Under the new policy, the Group recognizes the fair value of share options as an expense with a corresponding increase recognized in a capital reserve within equity. As binomial lattice option pricing model could capture assumption about early exercise of share option and is more appropriate for share options with relatively long contractual lives, the Group used binomial lattice model, instead of Black-Scholes model, to measure the fair value of share options granted.

The binomial lattice model (the "Model") is one of the option pricing models to estimate the fair value of an option. It should be noted that the Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the fair value of the share options derived from the Model should not be interpreted as the market or actual value of the option.

[@] According to Rule 17.08 of the Listing Rules, the risk-free rate should be the rate prevailing on debt securities issued by the state, such as the Exchange Fund Notes in case of Hong Kong based entities.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Except for the share options held by the Directors, at no time during the year was the Company or any of its subsidiaries, its holding companies or a subsidiary of 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 CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was a party or were parties 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, Mr. Zhao Leili, Director of the Company, was also a director of Guangdong Yue Gang Investment Holdings Company Limited ("Yue Gang") and GDH Limited ("GDH"). Messrs. Liang Jiang and Luo Fanyu, Directors of the Company, were also directors of GDH. GDH is a wholly-owned subsidiary of Yue Gang. Yue Gang and its subsidiaries other than the Group (the "Yue Gang Group") have a wide range of business interests which include distribution of live and fresh foodstuffs, development of properties and leasing of properties. There may be some overlapping between the scope of the aforementioned business interests of the Yue Gang Group and that of the Group. However, the Directors of the Company do not believe that there exist any direct or indirect competition in any material respect between the businesses of the Yue Gang Group and those of the Group.

DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries that is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

TRANSACTIONS DISCLOSED IN ACCORDANCE WITH THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Details of the transactions disclosed in accordance with the Listing Rules are set out on pages 105 to 107.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, so far as is known to any Directors or chief executives of the Company, the following persons (other than Directors and chief executives of the Company) had interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under Section 336 of the SFO:

Name	Number of ordinary shares beneficially held	Long/Short Position	Approximate % of issued share capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang") (Note)	536,380,868	Long position	59.49%
GDH Limited ("GDH")	536,380,868	Long position	59.49%

Note: The attributable interest which Yue Gang has in the Company is held through its 100 per cent. direct interest in GDH.

Save as disclosed above, as at 31 December 2006, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under Section 336 of the SFO.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS OR ITS SUBSIDIARIES

In addition to the disclosures contained in the Transactions Disclosed in Accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as set out on pages 105 to 107, the Company or its subsidiary had the following contracts of significance with GDH, the controlling shareholder of the Company, and its subsidiary.

On 25 March 2002, Zhongyue Industry Material Limited, a wholly-owned subsidiary of the Company, entered into a loan agreement with Richway Resources Limited ("Richway"), a wholly-owned subsidiary of GDH, for the provision by Richway of a loan in the amount of RMB50,000,000. The loan is without security, interest free and without fixed term of repayment. As at 31 December 2006, the loan has an outstanding balance of RMB25,000,000.

Subsequent to the balance sheet date, the Company signed a loan agreement with GDH pursuant to which GDH agreed to grant a loan to the extent of HK\$200,000,000 to the Company. Such loan was made upon normal commercial terms (or better), without security and will mature on 31 December 2008.

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.

PUBLIC FLOAT

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

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2006 have been reviewed by the Audit Committee of the Company.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There was no change in auditors of the Company in any of the preceding three years.

By order of the Board

Liang Jiang
Chairman

Hong Kong, 20 April 2007