

Directors' Report

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as "the Group") for the year ended 31st December 2006.

Principal Activities

The Group is principally engaged in infrastructure facilities, medicine, consumer products and information technology businesses.

Principal Subsidiaries, Jointly Controlled Entities and Associates

Details of the principal subsidiaries, jointly controlled entities and associates at 31st December 2006 are set out in notes 52, 53 and 54 to the consolidated financial statements respectively.

Results and Dividends

The results of the Group for the year ended 31st December 2006 are set out in the consolidated income statement.

An interim dividend of HK22 cents per share amounting to HK\$213,071,000 was paid to the Shareholders during the year. The Directors recommended the payment of a final dividend of HK30 cents per share to the Shareholders whose names appear on the register of members of the Company on 30th May 2007.

Financial Summary

A summary of the financial information of the Group for the year ended 31st December 2006 and the financial information of the Group for the previous four years is set out on page 146 of this annual report.

Share Capital

Changes in the share capital of the Company during the year are set out in note 37 to the consolidated financial statements.

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Reserves

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 39 to the consolidated financial statements.

Investment Properties

As at 31st December 2006, the investment properties of the Group were revalued by an independent property valuer based on comparable sales transactions at HK\$80.6 million. Details are set out in note 16 to the consolidated financial statements.

Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 17 to the consolidated financial statements.

Directors

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

Executive Directors

Cai Lai Xing (Chairman)
Cai Yu Tian (Vice Chairman & Chief Executive Officer)
Qu Ding (Vice Chairman & Executive Deputy CEO)
Lu Ming Fang
Ding Zhong De
Qian Shi Zheng (Deputy CEO)
Yao Fang
Tang Jun

Independent Non-Executive Directors

Lo Ka Shui
Woo Chia-Wei
Leung Pak To, Francis

Directors' Report

Directors (Continued)

The biographical details of the Directors are set out on pages 42 to 45 of this annual report. Details of Directors' emoluments are set out in note 13 to the consolidated financial statements.

In accordance with the Company's Articles of Association, the Directors of the Company (including Independent Non-Executive Directors) shall be subject to retirement by rotation at each annual general meeting. Mr. Qu Ding, Mr. Lu Ming Fang, Mr. Yao Fang and Mr. Tang Jun retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests

As at 31st December 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 and 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 as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(I) Interests in shares and underlying shares of the Company

(a) Ordinary shares

Name of Director	Capacity	Nature of interests	Number of issued shares held	Percentage of issued share capital
Cai Lai Xing	Beneficial owner	Personal	4,000,000	0.41%
Qu Ding	Beneficial owner	Personal	1,250,000	0.13%
Lu Ming Fang	Beneficial owner	Personal	4,200,000	0.43%
Ding Zhong De	Beneficial owner	Personal	200,000	0.02%
Qian Shi Zheng	Beneficial owner	Personal	200,000	0.02%
Yao Fang	Beneficial owner	Personal	200,000	0.02%

All interests stated above represented long positions.

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Directors' Interests (Continued)

(I) Interests in shares and underlying shares of the Company (Continued)

(b) Share options

Name of Director	Capacity	Date of grant	Exercise price per share HK\$	Number of share options held	Percentage of issued share capital
Cai Lai Xing	Beneficial owner	2.9.2005	14.89	800,000	0.08%
Cai Yu Tian	Beneficial owner	2.5.2006	17.10	1,300,000	0.13%
Qu Ding	Beneficial owner	2.9.2005	14.89	560,000	0.06%
Lu Ming Fang	Beneficial owner	2.9.2005	14.89	480,000	0.05%
Ding Zhong De	Beneficial owner	2.5.2006	17.10	1,000,000	0.10%
Qian Shi Zheng	Beneficial owner	2.9.2005	14.89	300,000	0.03%
Tang Jun	Beneficial owner	2.9.2005	14.89	300,000	0.03%

(II) Interests in shares of SI Pharmaceutical

Name of Director	Capacity	Nature of interests	Number of issued shares held	Percentage of issued share capital
Lu Ming Fang	Beneficial owner	Personal	23,400	0.01%
Ding Zhong De	Beneficial owner	Personal	23,400	0.01%

All interests stated above represented long positions.

Save as disclosed above, none of the Directors nor Chief Executive of the Company had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31st December 2006.

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Share Options

Particulars of the share option schemes adopted by the Group are set out in note 38 to the consolidated financial statements.

During the year, the movements in the share options to subscribe for the Company's shares were as follows:

	Date of grant	Exercise price per share HK\$	Number of shares issuable under the share options				Outstanding at 31.12.2006
			Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Lapsed during the year	
Category 1: Directors							
Cai Lai Xing	2.9.2005	14.89	800,000	–	–	–	800,000
Cai Yu Tian	2.5.2006	17.10	–	1,300,000	–	–	1,300,000
Qu Ding	2.9.2005	14.89	560,000	–	–	–	560,000
Lu Ming Fang	2.9.2005	14.89	480,000	–	–	–	480,000
Ding Zhong De	2.5.2006	17.10	–	1,000,000	–	–	1,000,000
Qian Shi Zheng	2.9.2005	14.89	300,000	–	–	–	300,000
Tang Jun	2.9.2005	14.89	300,000	–	–	–	300,000
Total for Directors			2,440,000	2,300,000	–	–	4,740,000
Category 2: Employees							
	10.9.2002	11.71	7,385,000	–	(885,000)	(6,500,000)	–
	2.9.2005	14.89	4,560,000	–	(86,000)	(383,000)	4,091,000
	2.5.2006	17.10	–	1,500,000	–	–	1,500,000
Total for employees			11,945,000	1,500,000	(971,000)	(6,883,000)	5,591,000
Category 3: Others							
	2.9.2005	14.89	3,000,000	–	–	–	3,000,000
	2.5.2006	17.10	–	1,200,000	–	–	1,200,000
Total for others			3,000,000	1,200,000	–	–	4,200,000
Total for all categories			17,385,000	5,000,000	(971,000)	(6,883,000)	14,531,000

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Share Options (Continued)

Share options granted in September 2002 ("First Lot Share Options") under the Company's share option scheme are exercisable in three batches within a period of three and a half years commencing from six months after the respective dates of acceptance of the share options. The exercisable period of the First Lot Share Options was expired in September 2006.

Share options granted in September 2005 ("Second Lot Share Options") under the Company's share option scheme are exercisable during the period from 2nd March 2006 to 1st March 2009 in three batches.

Share options granted in May 2006 ("Third Lot Share Options") under the Company's share option scheme are exercisable during the period from 2nd November 2006 to 1st November 2009 in three batches.

During the year, the weighted average closing price of the Company's shares immediately before the dates on which the share options under the Company's share option scheme were exercised was HK\$16.16.

The closing price of the Company's shares immediately before 2nd May 2006, being the date of grant of the Third Lot Share Options, was HK\$16.70.

Directors' Right to Acquire Shares and Debentures of the Company

Save as disclosed under the section of "Share Options" above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any other arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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Interests of Substantial Shareholders and Other Persons

As at 31st December 2006, the interests and short positions of the substantial Shareholders of the Company and other persons, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name of Shareholder	Capacity	Nature of interests	Number of issued ordinary shares beneficially held	Percentage of issued share capital
(a) Long Positions SIIC	Interests held by controlled corporations	Corporate	548,076,000 (note (i))	56.59%
Templeton Asset Management Limited	Investment manager	Corporate	58,123,253	6.00%
(b) Short Positions SIIC	Interests held by controlled corporations	Corporate	87,653,993 (note (ii))	9.05%

Notes:

- (i) SIIC through its wholly-owned subsidiaries, namely SIH, SIIC Capital and SIIC CM Development held 468,066,000, 80,000,000 and 10,000 ordinary shares of the Company respectively, and is accordingly deemed to be interested in the respective shares held by the aforesaid companies.
- (ii) SIIC was taken to have short positions in respect of 87,653,993 underlying shares of the Company under certain listed equity derivatives pursuant to the Zero Coupon Guaranteed Exchangeable Bonds issued by STC due March 2009 unconditionally and irrevocably guaranteed by SIIC and exchangeable into ordinary shares of the Company.

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31st December 2006.

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Connected Transactions

Details of the discloseable connected transactions for the year are set out in note 49(I) to the consolidated financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of Chapter 14A of the Listing Rules.

The Independent Non-Executive Directors have reviewed the continuing connected transactions set out in note 49(I) to the consolidated financial statements and in their opinion, these transactions were entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Related Party Transactions

Details of the related party transactions for the year are set out in note 49(II) to the consolidated financial statements.

Directors' Interests In Contracts of Significance

No contracts of significance to which the Company, or any of its subsidiaries, and its holding 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.

Major Customers and Suppliers

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total sales and purchases, respectively.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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Donations

During the year, the Group made charitable and other donations totalling HK\$10,000.

Retirement Benefits Schemes

Details of the Group's retirement benefits schemes are set out in note 48 to the consolidated financial statements.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained a sufficient public float.

Corporate Governance

The corporate governance principals and practices adopted by the Company are set out in the Corporate Governance Report on pages 27 to 41 of this annual report.

Auditor

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

On behalf of the Board



Cai Lai Xing

Chairman

Hong Kong, 20th April 2007