

Report of the Directors

The Directors herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associates and jointly controlled entity are set out in notes 55, 23 and 22 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 58 to 146.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on pages 149 to 150 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 16 to the consolidated financial statements.

Particulars of the major investment properties of the Group as at the balance sheet date are set out on pages 147 to 148 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

Particulars of the major property of the Group as at the balance sheet date are set out on pages 147 to 148 of this annual report.

SHARE CAPITAL

Details of movements in the Company’s share capital during the year are set out in note 44 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 61 of this annual report.



Report of the Directors

DIRECTORS

The Directors of the Company during the year were as follows:

Wang Qinghai

Cao Zhong

Chen Zheng

Wang Tian

Cheng Xiaoyu

Yuan Wenxin

Leung Shun Sang, Tony

Tam King Ching, Kenny*

Zhou Jianhong*

Liu Wei*

*(appointed on 27 February 2006 and re-designated as a
Non-executive Director on 20 December 2006)*

Hui Hung, Stephen*

(resigned on 27 February 2006)

Choy Hok Man, Constance

(retired on 26 May 2006)

* *Independent Non-executive Directors*

Subsequent to the balance sheet date, on 19 January 2007, Mr. Yip Kin Man, Raymond was appointed as an Independent Non-executive Director of the Company. On 31 January 2007, Mr. Liu Wei resigned as a Non-executive Director of the Company.

In accordance with clauses 99(A) and 102(B) of the Company's Bye-laws, Mr. Wang Tian, Ms. Cheng Xiaoyu and Mr. Yip Kin Man, Raymond will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In order to comply with the second part of code provision A.4.2 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Mr. Chen Zheng, being the Company's Managing Director of Operations, will retire voluntarily and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

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

Report of the Directors

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

The Directors of the Company who held office at 31 December 2006 had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) at the balance sheet date 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 Issuers (the "Model Code") of the Listing Rules:

(a) Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/ underlying shares held in the Company			Total interests	Total interests as to % to the issued share capital as at 31.12.2006
		Interests in shares	Interests under equity derivatives*	Total interests		
Wang Qinghai	Beneficial owner	8,278,679	–	8,278,679	0.73%	
Cao Zhong	Beneficial owner	8,278,679	–	8,278,679	0.73%	
Cheng Xiaoyu	Beneficial owner	8,278,679	–	8,278,679	0.73%	
Yuan Wenxin	Beneficial owner	4,920,000	–	4,920,000	0.43%	
Leung Shun Sang, Tony	Beneficial owner	8,278,000	679	8,278,679	0.73%	

* *The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.01 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.*



Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Long positions in the shares and underlying shares of Global Digital Creations Holdings Limited ("GDC"), an associated corporation of the Company

Name of Director	Capacity in which interests are held	Interests in shares	Number of shares/ underlying shares held in GDC		Total interests	Total interests as to % to the issued share capital of GDC as at 31.12.2006
			Interests under equity derivatives*	Total interests		
Cao Zhong	Beneficial owner	–	8,008,200	8,008,200	8,008,200	1%
Chen Zheng	Beneficial owner	–	8,008,200	8,008,200	8,008,200	1%
Wang Tian	Beneficial owner	–	800,820	800,820	800,820	0.1%
Cheng Xiaoyu	Beneficial owner	–	800,820	800,820	800,820	0.1%
Yuan Wenxin	Beneficial owner	–	800,820	800,820	800,820	0.1%
Leung Shun Sang, Tony	Beneficial owner	–	8,008,200	8,008,200	8,008,200	1%
Liu Wei	Beneficial owner	–	800,820	800,820	800,820	0.1%
Tam King Ching, Kenny	Beneficial owner	–	800,820	800,820	800,820	0.1%
Zhou Jianhong	Beneficial owner	–	800,820	800,820	800,820	0.1%

* The relevant interests are unlisted physically settled options granted pursuant to GDC's share option scheme adopted on 18 July 2003 (the "GDC Scheme"). Upon exercise of the share options in accordance with the GDC Scheme, ordinary shares of HK\$0.01 each in the share capital of GDC are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(c) Long positions in the shares and underlying shares of GDC Technology Limited ("GDC Tech"), an associated corporation of the Company

Name of Director	Capacity in which interests are held	Interests in shares	Number of shares/ underlying shares held in GDC Tech		Total interests as to % to the issued share capital of GDC Tech as at 31.12.2006
			Interests under equity derivatives*	Total interests	
Cao Zhong	Beneficial owner	4,266,667	4,266,667	8,533,334	7.84%
Chen Zheng	Beneficial owner	4,266,667	4,266,667	8,533,334	7.84%
Leung Shun Sang, Tony	Beneficial owner	2,130,000	3,333	2,133,333	1.96%

* The relevant interests are unlisted physically settled options granted pursuant to GDC Tech's share option scheme adopted on 19 September 2006 (the "GDC Tech Scheme"). Upon exercise of the share options in accordance with the GDC Tech Scheme, ordinary shares of HK\$0.1 each in the share capital of GDC Tech are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.

Save as disclosed above, at the balance sheet date, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and 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 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.



Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Schemes" herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouse or children under 18 years of age 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

Save for the transfer of shares in GDC Tech as disclosed in the section headed "Connected Transactions" herein, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Wang Qinghai	Shougang Corporation [#]	Property investment	Director
Cao Zhong	China Shougang International Trade and Engineering Corporation [#]	Property investment	Director

[#] Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.

The Board of Directors of the Company is independent from the boards of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At the balance sheet date, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the total issued share capital of the Company as at 31.12.2006	<i>Note(s)</i>
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	465,753,673	40.97%	1
Wheeling Holdings Limited ("Wheeling")	Beneficial owner	430,491,315	37.87%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	133,048,717	11.70%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	91,491,193	8.05%	2
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	133,048,717	11.70%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	133,048,717	11.70%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	133,048,717	11.70%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	133,048,717	11.70%	3



Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in the shares of the Company (continued)

Notes:

1. Wheeling was a wholly-owned subsidiary of Shougang Holding and its interest was included in the interests held by Shougang Holding.
2. Max Same was a wholly-owned subsidiary of Cheung Kong and its interest was included in the interests held by Cheung Kong.
3. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

Save as disclosed above, at the balance sheet date, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position of 5% or more in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this report.

Report of the Directors

SHARE OPTION SCHEMES

(a) Share option scheme of the Company

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

Under the Scheme, the Directors may, at their discretion, offer Directors (including Executive and Non-executive Directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of the associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the Directors, will contribute or have contributed to the Company or any of its subsidiaries or any of the associated companies, share options to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all outstanding share options granted under the Scheme is 92,632,679 which represents approximately 8.13% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares available for issue upon exercise of all share options which may be granted under the Scheme is 33,666, representing approximately 0.003% of the issued share capital of the Company as at the date of this annual report. The total number of shares issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as 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. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK\$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.



Report of the Directors

SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

The period during which a share option may be exercised will be determined by the Directors of the Company at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Directors of the Company are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the Directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK\$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

No share option was granted, exercised, cancelled or lapsed in accordance with the terms of the Scheme during the year. Details of the outstanding share options under the Scheme as at the balance sheet date were as follows:

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company				
Leung Shun Sang, Tony	75	23.08.2002	23.08.2002 – 06.06.2012	HK\$0.73
	604	06.03.2003	06.03.2003 – 05.03.2013	HK\$0.76
	<u>679</u>			
Employees of the Group	1,330,000	06.03.2003	06.03.2003 – 05.03.2013	HK\$0.76
	<u>1,330,679</u>			

Report of the Directors

SHARE OPTION SCHEMES (continued)

(b) Share option scheme of a subsidiary of the Company – GDC

GDC, a non wholly-owned subsidiary of the Company which is listed on the Growth Enterprise Market of the Stock Exchange (“GEM”), has adopted the GDC Scheme by a shareholders’ resolution passed at its special general meeting held on 18 July 2003.

The purpose of the GDC Scheme is to enable GDC to grant share options to eligible participants as rewards for their contributions to GDC and its subsidiaries (the “GDC Group”). The GDC Scheme will remain in force for a period of 10 years commencing on 4 August 2003, being the date on which dealings in the shares of GDC first commenced on the GEM, to 3 August 2013.

Under the GDC Scheme, the directors of GDC may, at their discretion, offer any full-time employees, directors (including independent non-executive directors) and part-time employees with weekly working hours of 10 hours and above, of the GDC Group and any advisor (professional or otherwise) or consultant, distributors, suppliers, agents, customers, joint venture partners, service providers to the GDC Group who the directors of GDC consider, in their sole discretion, have contributed or contribution to the GDC Group, share options to subscribe for share of GDC.

The total number of shares of GDC which may be issued upon exercise of all outstanding share options granted under the GDC Scheme is 52,157,880 which represents approximately 5.28% of the issued share capital of GDC as at the date of this annual report. The maximum number of shares of GDC available for issue upon exercise of all share options which may be granted under the GDC Scheme is 3,620, representing approximately 0.0004% of the issued share capital of GDC as at the date of this annual report. The total number of shares of GDC issued and to be issued upon the exercise of share options granted under the GDC Scheme (including both exercised and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of GDC as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of GDC and the Company respectively in general meeting. Share options granted to a director, chief executive, management or substantial shareholder of GDC or the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of GDC and/or the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of GDC or the Company, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of GDC in issue (based on the date of offer) and an aggregate value of HK\$5 million (based on the closing price of the shares of GDC at the date of each offer), within any 12-month period, are subject to approval of the shareholders of GDC and/or the Company in advance in general meeting.



Report of the Directors

SHARE OPTION SCHEMES (continued)

(b) Share option scheme of a subsidiary of the Company – GDC (continued)

The period during which a share option may be exercised will be determined by the directors of GDC at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of GDC are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors of GDC at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of GDC as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of GDC as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of GDC on the date of offer of share options. Each of the grantees is required to pay HK\$1 as consideration for the grant of share options in accordance with the GDC Scheme. The offer of a grant of share options must be accepted within 28 days from the date of the offer.

No share option was exercised, cancelled or lapsed in accordance with the terms of the GDC Scheme during the year. Details of movement in the share options under the GDC Scheme during the year were as follows:

Category or name of grantees	Options to subscribe for shares of GDC			Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Granted during the year ¹	At the end of the year			
Directors of the Company						
Cao Zhong	-	8,008,200	8,008,200	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Chen Zheng	-	8,008,200	8,008,200	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Wang Tian	-	800,820	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Cheng Xiaoyu	-	800,820	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Yuan Wenxin	-	800,820	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Leung Shun Sang, Tony	-	8,008,200	8,008,200	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Liu Wei ²	-	800,820	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Tam King Ching, Kenny	-	800,820	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Zhou Jianhong	-	800,820	800,820	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	-	28,829,520	28,829,520			
Employees of the Group	-	37,116,400	37,116,400	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
Other participants	-	3,902,460	3,902,460	06.10.2006	06.10.2006 – 05.10.2009	HK\$0.30
	-	69,848,380	69,848,380			

Report of the Directors

SHARE OPTION SCHEMES (continued)

(b) Share option scheme of a subsidiary of the Company – GDC (continued)

Notes:

1. (a) The closing price of the shares of GDC immediately before the date on which the share options were granted was HK\$0.28 per share.
- (b) The fair value per option of which at the date of grant was HK\$0.08. This fair value was calculated using the Binominal Option Valuation pricing model. The inputs into the model were as follows:

Weighted average share price	HK\$0.28
Exercise price	HK\$0.30
Expected volatility	87%
Expected life	3 years
Risk-free rate	3.75%
Expected dividend yield	Nil

Expected volatility was determined by using the historical volatility of GDC's share price over the previous 3 year. The expected life used in the model has been adjusted, based on GDC management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised the total expense of approximately HK\$5,590,000 for the year ended 31 December 2006 in relation to share options granted by GDC.

2. Mr. Liu Wei resigned as a Director of the Company subsequent to the year end date on 31 January 2007.

(c) Share option scheme of a subsidiary of the Company – GDC Tech

The Company and GDC have adopted the GDC Tech Scheme by a shareholders' resolution passed at their respective special general meetings held on 19 September 2006.

The purpose of the GDC Tech Scheme is to enable GDC Tech to grant options to eligible participants as rewards for their contributions to GDC Tech, its subsidiaries and its holding companies (including intermediate and ultimate holding companies) (the "GDC Tech Group"). The GDC Tech Scheme will remain in force for a period of 10 years commencing on 19 September 2006, being the date of adoption of the GDC Tech Scheme, to 18 September 2016.



Report of the Directors

SHARE OPTION SCHEMES (continued)

(c) Share option scheme of a subsidiary of the Company – GDC Tech (continued)

Under the GDC Tech Scheme, the directors of GDC Tech may, at their discretion, offer any full-time or part-time employees, executives, officers and directors (including non-executive directors and independent non-executive directors) of the GDC Tech Group and any advisors, consultants, suppliers, customers and agents to the GDC Tech Group and such other persons who the directors of GDC Tech consider, in their sole discretion, will contribute or have contributed to the GDC Tech Group, share options to subscribe for shares of GDC Tech.

The total number of shares of GDC Tech which may be issued upon exercise of all outstanding share options granted under the GDC Tech Scheme is 24,386,665 which represents approximately 15.13% of the issued share capital of GDC Tech as at the date of this annual report. The maximum number of shares of GDC Tech available for issue upon exercise of all share options which may be granted under the GDC Tech Scheme is 5,343,334, representing approximately 3.32% of the issued share capital of GDC Tech as at the date of this annual report. The total number of shares of GDC Tech issued and to be issued upon the exercise of share options granted under the GDC Tech Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of GDC Tech as at the date of grant. Any further grant of share options in excess of this limit is subject to approval of shareholders of GDC and the Company respectively in general meeting. Share options granted to a director, chief executive, management or substantial shareholder of GDC or the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of GDC and/or the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of GDC or the Company, or to any of their respective associates, in excess of in aggregate 0.1% of the shares of GDC Tech in issue (based on the date of offer) within any 12-month period, are subject to approval of the shareholders of GDC and/or the Company in advance in general meeting.

The period during which a share option may be exercised will be determined by the directors of GDC Tech at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the GDC Tech Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of GDC Tech are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors of GDC Tech at their absolute discretion and shall not be less than the nominal value of a share of GDC Tech and shall be subject to the approval of the board of directors of GDC or any committee duly constituted thereof. Each of the grantees is required to pay HK\$1 as consideration for the grant of share options in accordance with the GDC Tech Scheme. The offer of a grant of share options must be accepted within 30 days from the date of the offer.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(c) Share option scheme of a subsidiary of the Company – GDC Tech (continued)

No share option was cancelled in accordance with the terms of the GDC Tech Scheme during the year. Details of movement in the share options under the GDC Tech Scheme during the year were as follows:

Category or name of grantees	Options to subscribe for shares of GDC Tech					Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Granted during the year ¹	Exercised during the year	Lapsed during the year	At the end of the year			
Directors of the Company								
Cao Zhong	-	4,266,667 ²	-	-	4,266,667	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
Chen Zheng	-	4,266,667 ²	-	-	4,266,667	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
Leung Shun Sang, Tony	-	2,133,333 ²	(2,130,000)	-	3,333	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
	-	10,666,667	(2,130,000)	-	8,536,667			
Other individuals with options granted in excess of limit								
Chong Man Nang	-	7,466,666 ²	-	-	7,466,666	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
Kwong Che Keung, Gordon	-	1,706,667 ²	-	-	1,706,667	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
	-	9,173,333	-	-	9,173,333			
Employees of the Group								
	-	1,493,333	-	-	1,493,333	29.09.2006	29.09.2006 – 28.09.2009	HK\$0.145
	-	5,323,332	-	(130,000) ³	5,193,332	05.10.2006	05.10.2006 – 04.10.2009	HK\$0.145
	-	6,816,665	-	(130,000)	6,686,665			
	-	26,656,665	(2,130,000)	(130,000)	24,396,665			



Report of the Directors

SHARE OPTION SCHEMES (continued)

(c) Share option scheme of a subsidiary of the Company – GDC Tech (continued)

Notes:

1. The fair value per option of which at the dates of grant was HK\$0.013. This fair value was calculated using the Binominal Option Valuation pricing model. The inputs into the model were as follows:

Weighted average share price	HK\$0.10
Exercise price	HK\$0.145
Expected volatility	32%
Expected life	3 years
Risk-free rate	3.77%
Expected dividend yield	Nil

Expected volatility was determined by using the historical volatility of the share price of other companies in the similar industry of GDC Tech over the previous 3 years. The expected life used in the model has been adjusted, based on GDC Tech management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised the total expense of approximately HK\$347,000 for the year ended 31 December 2006 in relation to share options granted by GDC Tech.

2. The number of share options grant to Mr. Cao Zhong, Mr. Chen Zheng, Mr. Leung Shun Sang, Tony, Dr. Chong Man Nang and Mr. Kwong Che Keung, Gordon on 29 September 2006 each exceeded the individual limit of 1% of the shares of GDC Tech then in issue and were approved by the shareholders of GDC and the Company on 19 September 2006 respectively.
3. The share options were held by a grantee who ceased to be an employee of the Group during the year and such share options were lapsed on 18 November 2006.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

DISTRIBUTION RESERVES

At the balance sheet date, the Company had no reserves available for distribution.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 41% of the revenue for the year and the largest customer included therein amounted to approximately 27%. Purchases from the Group's five largest suppliers accounted for approximately 14% of the cost of sales for the year. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTIONS

The following connected transactions were announced during the year and up to the date of this annual report:

I. Transfer of shares in GDC Tech

On 5 July 2006, GDC transferred 4,266,667 shares, 4,266,667 shares and 7,466,666 shares in the issued share capital of GDC Tech to Mr. Cao Zhong, Mr. Chen Zheng and Dr. Chong Man Nang, respectively, at a price of HK\$0.1 per share for an aggregate cash consideration of HK\$1,600,000, payable at completion.

Prior to the transfer, GDC Tech was an indirect wholly-owned subsidiary of GDC which in turn was held as to approximately 74.98% by the Company. Both of Mr. Cao Zhong and Mr. Chen Zheng are Directors of the Company, and Dr. Chong Man Nang is a director of GDC Tech. As such, Mr. Cao Zhong, Mr. Chen Zheng and Dr. Chong Man Nang were connected persons under the Listing Rules. At completion of the said transfer, GDC Tech was held as to 85% by GDC, 4% by Mr. Cao Zhong, 4% by Mr. Chen Zheng and 7% by Dr. Chong. GDC Tech is principally engaged in the provision of computing solutions for digital content distribution and exhibitions. The said transfer would lead to Mr. Cao Zhong, Mr. Chen Zheng and Dr. Chong Man Nang having personal interests in GDC Tech, which would enhance the commitment and participation by Mr. Cao Zhong, Mr. Chen Zheng and Dr. Chong Man Nang in the business of GDC Tech and facilitate its development and in turn the continuous development of GDC.



Report of the Directors

CONNECTED TRANSACTIONS (continued)

II. Disposal of interest in a jointly controlled entity

On 1 December 2006, an agreement (the "Agreement") was entered into between (i) Grand Award Limited ("Grand Award"), a wholly-owned subsidiary of the Company, as vendor (ii) Strength Up Investments Limited ("Strength Up"), as one of the purchasers, (iii) China Beijing Shougang Hotel Development Company ("Shougang Hotel"), as another purchaser and (iv) Shougang Holding as guarantor for the due performance of Strength Up under the Agreement. Pursuant to the Agreement, Grand Award agreed to sell its entire interests in Beijing Dongzhimen International Apartment Co., Ltd. ("Dongzhimen") to Shougang Hotel and Strength Up, as to 24% and 20% of the total equity interests in Dongzhimen respectively, for an aggregate consideration of RMB170 million (the "Disposal").

As at the date of the Agreement, Strength Up was a wholly-owned subsidiary of Shougang Holding, the substantial shareholder of the Company, and Shougang Hotel was wholly owned by Shougang Corporation which in turn wholly owned Shougang Holding. As such, Strength Up and Shougang Hotel were connected persons under the Listing Rules. At completion of the Disposal, Grand Award would cease to hold any interest in the registered capital of Dongzhimen. Dongzhimen is principally engaged in the serviced apartment services through its ownership of East Lake Villas. By effecting the Disposal, the Group could recoup capital for developing its other businesses which would have a greater growth and earnings potential. The net proceeds of approximately HK\$160.43 million generated from the Disposal would be utilised as to approximately HK\$56 million for meeting the Group's capital commitment arising from other existing businesses, as to approximately HK\$40.78 million for repaying certain loans of the Group and as to the remaining balance of approximately HK\$63.65 million would be used as working capital of the Group. The Agreement was approved by the independent shareholders on 12 January 2007 and the Disposal is yet to complete at the date of this annual report pending the approval by the relevant PRC authorities.

III. Deemed disposal of interest in GDC Tech

On 1 December 2006, a subscription agreement (the "GDC Tech Subscription Agreement") was entered into between GDC Tech and Greater Appeal Investments Limited ("Greater Appeal"). Pursuant to the GDC Tech Subscription Agreement, GDC Tech conditionally agreed to issue and allot to Greater Appeal, and Greater Appeal conditionally agreed to subscribe for, 52,383,580 new shares in the share capital of GDC Tech at US\$0.12408 per share for an aggregate consideration of US\$6.5 million (equivalent to approximately HK\$50.57 million).

Report of the Directors

CONNECTED TRANSACTIONS (continued)

III. Deemed disposal of interest in GDC Tech (continued)

As at the date of the GDC Tech Subscription Agreement, Greater Appeal was ultimately beneficially wholly-owned by Mr. Li Ka-shing who through his associates held approximately 11.70% shareholding interest in the Company. As such, Greater Appeal was a connected person under the Listing Rules. At completion of the said subscription, Greater Appeal held approximately 32.49% of the issued share capital of GDC Tech. It would be in the interest of GDC Tech to secure additional funding, by entering into the GDC Tech Subscription Agreement, to expedite the rolling out of GDC Tech's business plan. The net proceeds of approximately HK\$50.07 million of the GDC Tech Subscription Agreement would be utilised for business expansion of GDC Tech in the PRC and other countries and for enhancement of research and development activities of GDC Tech. The GDC Tech Subscription Agreement was approved by the independent shareholders on 12 January 2007 and the subscription was completed subsequent to the balance sheet date and on 18 January 2007.

IV. Subscription of new shares in GDC

On 1 December 2006, a subscription agreement (the "GDC Subscription Agreement") was entered into between GDC and Great Horizon International Limited ("Great Horizon"). Pursuant to the GDC Subscription Agreement, GDC conditionally agreed to issue and allot to Great Horizon, and Great Horizon conditionally agreed to subscribe for, 40,000,000 new shares in the share capital of GDC (the "GDC Subscription Shares") at HK\$0.2436 per share for an aggregate consideration of approximately HK\$9.74 million.

As at the date of the GDC Subscription Agreement, Great Horizon was ultimately beneficially wholly-owned by Mr. Li Ka-shing who through his associates held approximately 11.70% shareholding interest in the Company. As such, Great Horizon was a connected person under the Listing Rules. At completion of the said subscription, Great Horizon held approximately 4.75% of the issued share capital of GDC. The subscription could enlarge the then capital and investor base of GDC and the net proceeds of approximately HK\$9.23 million would be used as general working capital of GDC. The GDC Subscription Agreement was approved by the independent shareholders on 12 January 2007 and the subscription was completed subsequent to the balance sheet date and on 18 January 2007.



Report of the Directors

CONNECTED TRANSACTIONS (continued)

V. Connected transaction subsequent to the balance sheet date

On 4 April 2007, an agreement (the "Supply Agreement") was entered into between Institute of Digital Media Technology (Shenzhen) Limited ("IDMT Shenzhen") and GDC Tech. Pursuant to the Supply Agreement, IDMT Shenzhen agreed to purchase from GDC Tech 4 units of digital cinema integrated projection system at an aggregate consideration of US\$240,000 (approximately HK\$1,860,000).

As at the date of the Supply Agreement, IDMT Shenzhen was an indirect non-wholly owned subsidiary of the Company. GDC Tech was also an indirect non-wholly owned subsidiary of the Company, in which Greater Appeal was interested as to approximately 32.49% in its issued share capital. Greater Appeal was ultimately beneficially wholly-owned by Mr. Li Ka-shing who through his associates held approximately 11.70% shareholding interest in the Company. As such, GDC Tech was a connected person under the Listing Rules. The purchase was for the purpose of developing the digital cinema business of IDMT Shenzhen pursuant to the co-operation with China Film Group Corporation ("China Film Group") as announced by GDC on 31 October 2006. The delivery of the equipment will be before 31 May 2007.

VI. Continuing connected transactions subsequent to the balance sheet date

- (1) As stated in the announcement of the Company dated 3 January 2007, the following tenancy agreements were renewed:
 - (a) a tenancy agreement dated 2 January 2007 whereby a portion of the 6th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,412 square feet was leased by Winluck Properties Limited, an indirect wholly-owned subsidiary of Shougang Holding which in turn is a substantial shareholder of the Company, to Long Cosmos Investment Limited, an indirectly wholly-owned subsidiary of the Company, for a term of three years commencing from 1 January 2007 at a monthly rental of HK\$134,600 (exclusive of rates and other charges payable to independent third parties). This office premises was used by the Group as office; and
 - (b) a tenancy agreement dated 3 January 2007 whereby Flat 1612, Block Q, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 756 square feet was leased by Linksky Limited, an indirect wholly-owned subsidiary of the Company, to Gold Regal Limited, a direct wholly-owned subsidiary of Shougang Concord Century Holdings Limited ("Shougang Century") which is an associate of Shougang Holding, for a term of three years commencing from 1 January 2007 at a monthly rental of HK\$11,800 (exclusive of rates and other charges payable to independent third parties). This residential premises was used by the senior executive of Shougang Century as quarter.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

VI. Continuing connected transactions subsequent to the balance sheet date (continued)

- (2) As stated in the announcement of the Company dated 12 April 2007, a master supply agreement (the "Master Supply Agreement") was entered into between the Company and GDC Tech on 11 April 2007. Pursuant to the Master Supply Agreement, GDC Tech agreed to supply the Company and/or its associates with digital cinema equipment and network management and other related equipment and services. The proposed cap amounts of the transactions contemplated under the Master Supply Agreement for each of the period ending 31 December 2007 and the two financial years ending 31 December 2009 will not exceed US\$103,000,000, US\$104,500,000 and US\$106,000,000, respectively. The purchases were for the purpose of developing the digital cinema business of IDMT Shenzhen pursuant to the co-operation with China Film Group. The Master Supply Agreement and the relevant cap amounts are subject to and pending approval by the independent shareholders of the Company and GDC (if applicable), respectively.

As far as the transactions set out in note 54 to the consolidated financial statements under the heading of "Related Party Transactions" are concerned, the transactions as set out in notes (a) and (b) were connected transactions which have been previously announced in newspapers by the Company. The transactions as set out in notes (c), (d) and (e) were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The remaining transactions which took place during the year as set out under the heading of "Related Party Transactions" did not constitute connected transactions under the Listing Rules.

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

As at 31 December 2006, the circumstances giving rise to the disclosure obligations under Rules 13.13 and 13.16 of the Listing Rules continued to exist and in accordance with Rule 13.20 of the Listing Rules, details of the relevant advances to an affiliated company are as follows:

The aggregate amount of advances (which were in the form of shareholder's loans) given by the Group to Jeckman Holdings Limited, an affiliated company of the Company, was approximately HK\$57,704,000, representing approximately 15% of the market capitalisation of the Company and approximately 13% of the total assets of the Group as at 31 December 2006. All advances were unsecured, interest free and had no fixed terms of repayment, and were financed by the internal resources of the Group.



Report of the Directors

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES (continued)

In accordance with Rule 13.22 of the Listing Rules, the combined balance sheet of and the Group's attributable interest in the affiliated company as at the latest practicable date are set out as follows:

	At 31 December 2006	
	Combined HK\$'000	The Group's attributable interest HK\$'000
Non-current assets	843,028	421,514
Current assets	271,608	135,804
Current liabilities	207,250	103,625
Net current assets	64,358	32,179
Total assets less current liabilities	907,386	453,693
Non-current liabilities	878,744	439,372
Net assets	<u>28,642</u>	<u>14,321</u>

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 21 to 33 of this annual report.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 53 to the consolidated financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu was appointed as auditors of the Company in place of Messrs. Ernst & Young upon their retirement at the annual general meeting of the Company held on 25 June 2003. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By Order of the Board

Cao Zhong

Vice Chairman and Managing Director

Hong Kong, 19 April 2007