

## Report of the Directors

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The directors have pleasure in presenting their annual report and the audited financial statements of Grand Field Group Holdings Limited (the "Company") and its subsidiary companies (together referred to as the "Group") for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiary companies of the Company are set out in the note 16 to the financial statements. There have been no significant changes in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

The Group's turnover and the loss from operations are substantially derived from the sale of properties in the People's Republic of China ("PRC"). No segment information is therefore presented in the financial statements.

### RESULTS

The consolidated results of the Group for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 67.

### DIVIDENDS

The directors do not recommend the payment of final dividend in respect of the year ended 31 December 2006 (2005: HK\$nil). No interim dividend was declared for the six months ended 30 June 2006 (2005: HK\$nil)

### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of the movements in fixed assets and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements respectively.

### SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 26 to the financial statements.

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## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the statements of changes in equity on page 30 of the financial statements respectively.

## FINANCIAL SUMMARY

The following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the five years ended 31 December 2006.

### Consolidated results

	Year ended 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	6,814	9,776	138,628	68,956	72,161
(Loss)/Profit before taxation	(24,340)	3,103	47,707	(66,118)	(5,051)
Taxation	141	(68)	(7,089)	(733)	(383)
(Loss)/Profit after taxation	(24,199)	3,035	40,618	(66,851)	(5,434)

### Consolidated assets and liabilities

	As at 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Total assets	379,859	375,851	411,956	456,795	611,109
Total liabilities	(65,591)	(53,810)	(79,702)	(171,716)	(268,620)
Net assets	314,268	322,041	332,254	285,079	342,489

## MAJOR PROPERTIES

Details of the major properties of the Group at 31 December 2006 are set out on pages 68 to 72.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, turnover made from the five largest customers of the Group accounted for approximately 7% (2005: 19%) of the Group's total turnover for the year. Turnover from the Group's largest customer accounted for approximately 2% (2005: 6%) of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 100% (2005: 91%) of the Group's total purchases for the year. Purchases from the Group's largest supplier accounted for approximately 78% (2005: 43%) of the Group's total purchases for the year.

As far as the directors are aware, neither the directors, their associates, nor the shareholders which to the best knowledge of the directors own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers during the year.

## BANK LOANS AND OTHER BORROWINGS

Details of bank and other borrowings are set out in note 25 to the financial statements.

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

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

# Report of the Directors

## DIRECTORS

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

### Executive Directors

Mr. Tsang Wai Lun, Wayland (*Chairman*)

Madam Kwok Wai Man, Nancy

Mr. Lau Tam Wah (Deceased on 25 December 2006)

Mr. Siu King Nin, Peter (Appointed on 6 September 2006)

Mr. Huang Bing Huang (Appointed on 5 February 2007)

Mr. Wong King Lam, Joseph (Appointed on 16 March 2007)

Mr. Au Kwok Chuen, Vincent (Appointed on 16 March 2007)

Mr. Huang Bing Huang was appointed as Chief Executive Officer and Chief Operation Officer on 17 April 2007.

### Independent Non-executive Directors

Mr. Hui Pui Wai, Kimber

Mr. Lum Pak Sum

Dr. Wong Yun Kuen

In accordance with clauses 111A and 115 of the Company's Bye-Laws, Mr. Siu King Nin, Peter, Mr. Huang Bing Huang, Mr. Wong King Lam, Joseph and Mr. Au Kwok Chuen, Vincent will retire by rotation. Save and except for Mr. Siu King Nin, Peter, all retiring directors being eligible, offer themselves for re-election.

The Company has received from the Independent Non-executive Directors their annual confirmation of independence in accordance with rule 3.13 of the Listing Rules. The Company has assessed their independence and concluded that all Independent Non-executive Directors are independent within the definition of the Listing Rules.

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

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 7 to 9 of the Company's annual report.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

### (i) Long positions in shares of the Company

At 31 December 2006, the interests and long positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained 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 for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Name of director	Number of ordinary shares held			Total interests	Total interests as percentage of the issued share capital
	Personal Interests	Family interests	Corporate interests		
Mr. Tsang Wai Lun, Wayland	64,210,000	–	735,050,000 (Note)	799,260,000	38.12%
Madam Kwok Wai Man, Nancy	13,170,000	–	735,050,000 (Note)	748,220,000	35.69%

Note: These shares are held through Rhenfield Development Corp, the entire issued capital of which is owned by Mr. Tsang Wai Lun, Wayland and Madam Kwok Wai Man, Nancy in equal shares. By virtue of the provisions of Part XV of the SFO, Mr. Tsang Wai Lun, Wayland and Madam Kwok Wai Man, Nancy are deemed to be interested in the Company shares in which Rhenfield Development Corp is interested.

Subsequent to the balance sheet date, on 5 February 2007, Mr. Huang Bing Huang has been appointed as a director of the Company and he has beneficially owned 180,500,000 shares of the Company through his 60% interest in Hongkong Zhongxing Group Company Limited.

### (ii) Share options in the Company

Details of the share options granted to the directors of the Company under the share option scheme are set out on pages 21 to 22.

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### (iii) Share in subsidiary companies

Each of Mr. Tsang Wai Lun, Wayland and Madam Kwok Wai Man, Nancy also has interests in the following non-voting deferred shares in the following subsidiary companies of the Company:

	<b>Grand Field Group Limited</b>	<b>Ka Fong Industrial Company Limited</b>	<b>Kwan Cheung Holdings Limited</b>	<b>Shing Fat Hong Limited</b>
Mr. Tsang Wai Lun, Wayland	1 share of HK\$100	1,000 shares of HK\$100 each	1 share of HK\$100	1 share of HK\$1
Madam Kwok Wai Man, Nancy	1 share of HK\$100	1,000 shares of HK\$100 each	1 share of HK\$100	1 share of HK\$1

Other than the shareholdings disclosed above and nominee shares in certain subsidiary companies held in trust for the Group, at 31 December 2006, neither the directors nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SFO.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed under the headings "Directors' interests in shares and options" above, at no time during the year was the Company or any of its subsidiary companies a party to any arrangements to enable the directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any rights to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or 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

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contracts of significance to the business of the Group to which the Company, its holding company or any of its subsidiary companies was a party during the year or at the end of the year.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2006, other than the interests disclosed above in respect of certain directors, so far as is known to the directors, the following parties (other than the directors and chief executives of the Company) had interests of 5% or more in the issued share capital of the Company as recorded in the register required to be kept under Section 336 of SFO:

Name of shareholders	Number of ordinary shares	Percentage of interest
Worldgate Developments Ltd.	126,000,000	6%
Logistics China Enterprises Ltd.	126,000,000	6%

## SHARE OPTION SCHEME

- (I) Pursuant to the Company's share option scheme which became effective on 4 August 1999 (the "Old Share Option Scheme"), the board of directors of the Company (the "Board") may, at its discretion, grant options to eligible employees, including executive directors, of the Company and its subsidiary companies to subscribe for shares in the Company at a price not less than the higher of 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the grant of options and the nominal value of shares .

The maximum number of shares in respect of which options may be granted under the Old Share Option Scheme may not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted.

The Board had granted 79,050,000 options to certain directors and employees of the Group under the Old Share Option Scheme and no option remained outstanding as of 31 December 2006 as follows:-

Name or category of participant	Date of grant	Exercise price (HK\$)	Exercise period	Number of share options		
				Outstanding at 1/1/2006	Exercised during the period	Outstanding at 31/12/2006
Mr. Tsang Wai Lun, Wayland	25/11/2003	0.065	25/11/2003 to 24/11/2006	4,950,000	(4,950,000)	-
Madam Kwok Wai Man, Nancy	25/11/2003	0.065	25/11/2003 to 24/11/2006	4,950,000	(4,950,000)	-
Mr. Lau Tam Wah	25/11/2003	0.065	25/11/2003 to 24/11/2006	3,200,000	(3,200,000)	-
Other employees, in aggregate	25/11/2003	0.065	25/11/2003 to 24/11/2006	36,560,000	(36,560,000)	-
				<u>49,660,000</u>	<u>(49,660,000)</u>	<u>-</u>

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The Old Share Option Scheme was terminated by the Company in the Company's Annual General Meeting held on 23 June 2006.

- (II) On 23 June 2006, the Company adopted a new share option scheme (the "New Share Option Scheme"), pursuant to which the Board may, at its discretion, grant options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser or contract to any company in the Group or any affiliate; (ii) any discretionary trust the discretionary objects of which include any of the parties set out in (i) above. The subscription price for the shares under the New Share Option Scheme will be determined by the Board in its absolute discretion but shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of the grant, which must be a business day; and (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of offer of the grant; and (iii) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and any other share option schemes shall not exceed 30% of the nominal amount of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to each eligible participant shall not exceed 1% of the issued share capital of the Company for the time being in any 12-month period up to and including the date of offer of the grant.

The New Share Option Scheme will remain in force for a period of 10 years commencing from the date of adoption of the Scheme from 23 June 2006. As at 31 December 2006, no options have been granted under the New Share Option Scheme.

### 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.



## PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this report, there is sufficient public float of the Company's issued shares as required under the Listing Rules throughout the year ended 31 December 2006.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the code provisions set out in the Code on Corporate Governance in Appendix 14 of the Listing Rules throughout the year except deviations stated in the Corporate Governance Report on pages 10 to 14.

## AUDIT COMMITTEE

The Audit Committee has reviewed with Group management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters including the review of the audited financial statements for the year ended 31 December 2006, with external auditors. There were no disagreements from the Auditors or the Audit Committee with the accounting policies adopted by the Company.

## AUDITORS

Baker Tilly Hong Kong Limited retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Tsang Wai Lun, Wayland**

*Chairman*

Hong Kong

24 April 2007