

Report of the Directors

The Directors herein present their report and the audited financial statements of Guangdong Investment Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group was principally engaged in investment holding, property holding and investment, the development of properties for sale, investing in infrastructure and energy projects, water supply to Hong Kong, and Shenzhen and Dongguan in the mainland of the People's Republic of China, hotel ownership and operations, hotel management and department stores operation. Details of the principal activities of the principal subsidiaries, jointly-controlled entities and principal associates are set out in notes 19, 20 and 21 to the financial statements respectively.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2005 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 58 to 185.

An interim dividend of 4.0 HK cents per share was paid on 17 October 2005. The Directors recommend the payment of a final dividend of 5.0 HK cents (2004: 3.5 HK cents) per share for the year ended 31 December 2005. This recommendation has been incorporated in the financial statement as an allocation of retaining profits within the equity section of the balance sheet.

The proposed final dividend, if approved at the forthcoming Annual General Meeting of the Company to be held on Wednesday, 7 June 2006, is expected to be paid on 28 June 2006 to shareholders whose names appear on the register of members of the Company on 7 June 2006.

The Register of Members will be closed from 5 June 2006 to 7 June 2006, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tengis Limited, of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 2 June 2006.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years extracted from the audited financial statements and reclassified as appropriate, is set out below:

Results

		Year ended 31 December			
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
		(Restated)	(Note)	(Note)	(Note)
REVENUE					
Continuing operations	5,249,158	5,109,127	4,825,784	4,659,956	4,956,992
Discontinued operations	—	—	338,159	2,077,069	2,314,526
	5,249,158	5,109,127	5,163,943	6,737,025	7,271,518
PROFIT FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	1,623,732	1,159,547	1,555,490	356,614	592,694
Share of profits of jointly-controlled entities	66,023	33,886	63,359	62,320	39,320
Share of profits less losses of associates	38,420	44,660	53,713	111,208	28,332
	1,728,175	1,238,093	1,672,562	530,142	660,346
PROFIT BEFORE TAX					
Continuing operations	1,728,175	1,238,093	1,650,584	452,862	652,975
Discontinued operations	—	—	21,978	77,280	7,371
	1,728,175	1,238,093	1,672,562	530,142	660,346
TAX					
Continuing operations	(218,163)	(159,235)	(221,793)	(217,359)	(119,108)
Discontinued operations	—	—	(1,794)	(20,559)	(11,542)
	(218,163)	(159,235)	(223,587)	(237,918)	(130,650)
PROFIT BEFORE MINORITY INTERESTS	1,510,012	1,078,858	1,448,975	292,224	529,696
Minority interests	(206,517)	(183,082)	(342,254)	(97,320)	(244,154)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	1,303,495	895,776	1,106,721	194,904	285,542

SUMMARY OF FINANCIAL INFORMATION (continued)**Assets, liabilities and minority interests**

	As at 31 December				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Note)	(Note)	(Note)
PROPERTY, PLANT AND EQUIPMENT	7,722,849	7,978,794	12,737,077	9,860,868	10,364,378
PROPERTIES UNDER DEVELOPMENT	15,342	4,631	37,141	69,600	173,147
INVESTMENT PROPERTIES	2,302,685	2,085,292	2,106,139	2,289,280	2,332,118
PREPAID LAND LEASE PAYMENTS	4,058,923	4,199,344	—	—	—
GOODWILL AND NEGATIVE GOODWILL, NET	139,346	(176,070)	(120,767)	(130,411)	(104,209)
INTERESTS IN JOINTLY-CONTROLLED ENTITIES	917,756	1,014,362	961,297	968,130	972,344
INTERESTS IN ASSOCIATES	483,415	452,679	371,404	423,617	641,163
CONTRACTUAL JOINT VENTURE	46,569	—	—	77,340	245,598
INTANGIBLE ASSETS	12,148,375	12,641,662	13,134,949	13,628,236	14,123,023
OTHER ASSETS	2,704,296	2,149,863	2,311,506	5,008,572	4,630,970
DEFERRED TAX ASSETS	9,563	4,562	3,617	37,896	—
TOTAL ASSETS	30,549,119	30,355,119	31,542,363	32,233,128	33,378,532
BONDS	—	(442,167)	(994,640)	(417,085)	(650,179)
FLOATING RATE NOTES	—	—	—	(245,282)	(382,349)
OTHER LOANS AND LIABILITIES	(16,875,912)	(17,465,929)	(18,764,207)	(19,625,306)	(20,556,930)
DEFERRED TAX LIABILITIES	(592,217)	(527,113)	(881,907)	(819,016)	(2,285)
TOTAL LIABILITIES	(17,468,129)	(18,435,209)	(20,640,754)	(21,106,689)	(21,591,743)
MINORITY INTERESTS	(1,602,701)	(1,875,228)	(1,969,304)	(2,306,455)	(2,669,292)
NET ASSETS	13,080,990	11,919,910	8,932,305	8,819,984	9,117,497

Note: The new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK-Ints") of HKAS1, 2, 7, 8, 10, 12, 14, 16–21, 23, 24, 27, 28, 31–33, 36–40, HKFRS 2, 3, 5, HK-Int 1, 2, 4, HKAS-Int 15 and 21, which have become effective for accounting periods beginning on or after 1 January 2005, have affected the Group. The Group has adopted new accounting policies in accordance with the new changes. The amounts for the year 2004 have been adjusted accordingly. However, the directors opined that for years before 2004, as a result of the changes in the Group structure in those years and the inability to access the books and records of certain disposed companies, it is difficult to ascertain the full financial effects arising the current changes in accounting policies. As a result, it is not practicable for the Group to restate the amounts in those years for comparison purposes.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 14 and 16 to the financial statements, respectively.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 15 to the financial statements.

ORDINARY SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's ordinary share capital and share options during the year are set out in notes 37 and 38 to the financial statements.

The Company has an obligation to issue a total of 330,000,000 ordinary shares to GDH Limited ("GDH") in accordance with an earnout agreement dated 22 December 2000 between the Company and GDH (the "Earnout Agreement"). 66,000,000 ordinary shares were allotted and credited as fully paid on 21 December 2005 to GDH pursuant to the Earnout Agreement. Further details of the Earnout Agreement and issuance of ordinary shares pursuant thereto are set out in notes 13, 37 and 39 to the financial statements, respectively.

SHARE PREMIUM ACCOUNTS AND RESERVES

Details of movements in the share premium accounts and reserves of the Company and the Group during the year are set out in notes 37 and 39 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance and in light of the undertakings more particularly referred to in note 39 to the financial statements amounted to HK\$895,338,000.

CHARITABLE CONTRIBUTIONS

The Group made no charitable contributions during the year (2004: Nil).

Report of the Directors

SHARE OPTIONS OF THE COMPANY

In assessing the theoretical aggregate value of the share options granted during the year, the Black-Scholes option pricing model has been used.

Share options granted during the year ended 31 December 2005:

Date of Grant	:	19/01/2005
Vesting Period	:	19/01/2005 – 19/04/2005
Exercise Period	:	20/04/2005 – 19/04/2010
Exercise Price	:	HK\$2.575 per share

	Number of options at 19/01/05	Options value at 19/01/05 HK\$ (Note (2))	Number of options at 31/12/05	Options value at 31/12/05 HK\$ (Note (3))
Grantee:				
Director				
FUNG Sing Hong, Stephen	1,500,000	1,260,000	1,500,000	1,590,000
Total	1,500,000	1,260,000	1,500,000	1,590,000

Notes:

(1) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK\$2.60.

(2) According to the Black-Scholes model¹, the theoretical aggregate value of the options was estimated at HK\$1,260,000 as at 19 January 2005 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	2.85%, being the approximate yield of the 5-year Exchange Fund Note traded on 19/01/2005
Expected Volatility	:	41.8%, being the annualised volatility of the closing price of the ordinary shares of the Company from 20/01/2004 – 19/01/2005
Expected Dividend Yield	:	2.33%, being the approximate yield of the shares of the Company over the period from 20/01/2004 to 19/01/2005
Expected Life of the Options	:	5 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 20/01/2004 to 19/01/2005.

SHARE OPTIONS OF THE COMPANY (continued)

Notes: (continued)

- (3) According to the Black-Scholes model¹, the theoretical aggregate value of the outstanding options was estimated at HK\$1,590,000 as at 31 December 2005 with the following variables and assumptions:

Risk Free Rate	:	4.11%, being the approximate yield of the 5-year Exchange Fund Note traded on 31/12/2005
Expected Volatility	:	43.6%, being the annualised volatility of the closing price of the ordinary shares of the Company from 01/01/2005 to 31/12/2005
Expected Dividend Yield	:	2.59%, being the approximate yield of the shares of the Company over the period from 01/01/2005 to 31/12/2005
Expected Life of the Options	:	4.30 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 01/01/2005 to 31/12/2005.

- (4) Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of ordinary shares available to be issued under the relevant share option scheme.

1 The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Details of the options of the Company held by the Directors of the Company are set out in the section headed "Directors' Interests and Short Positions in Securities" of this report.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Share Options of the Company" and "Directors' Interests and Short Positions in Securities" of this report, and in note 38 to the financial statements, at no time during the year was the Company, its holding companies or any of its subsidiaries or associated corporations, a party to any arrangements to enable the Directors of the Company or their 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.

Report of the Directors

DIRECTORS

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

LI Wenyue (Chairman)

ZHANG Hui (Managing Director)

* CHAN Cho Chak, John

* LI Kwok Po, David

* FUNG, Daniel Richard

CHENG Mo Chi, Moses

LI Wai Keung

FUNG Sing Hong, Stephen (Chief Financial Officer)

WANG Xiaofeng

XU Wenfang (appointed on 3 March 2005)

WU Jiesi (resigned on 29 April 2005)

GU Shunan (resigned on 3 March 2005)

* Independent Non-Executive Director

Non-Executive Director

Messrs. LI Wenyue, FUNG, Daniel Richard and CHENG Mo Chi, Moses will retire by rotation in accordance with Article 77 of the Articles of Association of the Company at the forthcoming annual general meeting. Being eligible, Messrs. LI Wenyue, FUNG, Daniel Richard and CHENG Mo Chi, Moses will offer themselves for re-election.

Mr. FUNG, Daniel Richard, Independent Non-Executive Director, and Mr. CHENG Mo Chi, Moses, Non-Executive Directors, agree to stand for re-election and if re-elected to hold office from the date of re-election, to the earlier of (i) the conclusion of the annual general meeting of the Company to be held in 2009 and (ii) 30 June 2009 subject to earlier determination in accordance with the Articles of Association of the Company and/or applicable laws and regulations.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 29 to 32 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the Directors had a material beneficial interest, whether directly or indirectly, in any significant contract to which the Company or any of its subsidiaries was a party during the year or as at 31 December 2005.

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2005, Mr. LI Wenyue, Chairman of the Company, was also the Chairman and General Manager of both 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment") and GDH. Mr. LI Wai Keung, Director of the Company, was also a director of GDH. GDH is a wholly-owned subsidiary of Yue Gang Investment. Yue Gang Investment and its subsidiaries other than the Group (the "Yue Gang Investment Group") have certain business interests which include property, hotels, infrastructure and water supply investment. There may be some overlapping between the scope of the aforementioned businesses of the Yue Gang Investment Group and that of the Group. However the Directors do not believe that there exist any direct or indirect competition in any material respect between the businesses of the Yue Gang Investment Group and those of the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2005, the interests and short positions of the Directors and the 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 Securities and Futures Ordinance (the "SFO")) which are required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a Director is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Interests and short positions in the Company

(i) *Interests in ordinary shares*

Name of Director	Capacity/ nature of interest	Number of ordinary shares held	Long/short position	Approximate percentage of holding
LI Wenyue	Personal	400,000	Long position	0.007%
CHAN Cho Chak, John	Personal	2,000,000	Long position	0.033%
LI Kwok Po, David	Personal	4,000,000	Long position	0.067%
CHENG Mo Chi, Moses	Personal	500,000	Long position	0.008%

Note: The number of ordinary shares of the Company in issue as at 31 December 2005 was 6,017,518,071.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

Interests and short positions in the Company (continued)

(ii) *Interests in options relating to ordinary shares*

Name of Director	Number of options held as at 1 January 2005	Options granted during the year Date (dd.mm.yyyy)	Number	Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per ordinary share payable on exercise of options HK\$	Number of options exercised during the year	Number of options held as at 31 December 2005	Long/Short Position
LI Wenyue	7,000,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	—	7,000,000	Long position
	9,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	9,000,000	Long position
	6,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	6,000,000	Long position
	3,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	3,000,000	Long position
	3,000,000	—	—	07.05.2004 – 06.05.2009	1	1.59	—	3,000,000	Long position
	2,500,000	—	—	25.08.2004 – 24.08.2009	1	1.25	—	2,500,000	Long position
ZHANG Hui	5,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	5,000,000	Long position
	3,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	3,000,000	Long position
	3,000,000	—	—	07.05.2004 – 06.05.2009	1	1.59	—	3,000,000	Long position
	2,500,000	—	—	25.08.2004 – 24.08.2009	1	1.25	—	2,500,000	Long position
CHAN Cho Chak, John	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000	Long position
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 – 24.08.2009	1	1.25	—	450,000	Long position
LI Kwok Po, David	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	1,000,000	—	Long position
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	1,000,000	—	Long position
	1,000,000	—	—	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 – 24.08.2009	1	1.25	—	450,000	Long position

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

Interests and short positions in the Company (continued)

(ii) Interests in options relating to ordinary shares (continued)

Name of Director	Number of options held as at 1 January 2005	Options granted during the year Date (dd.mm.yyyy)	Number	Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per ordinary share payable on exercise of options HK\$	Number of options exercised during the year	Number of options held as at 31 December 2005	Long/Short Position
FUNG, Daniel R.	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	1,000,000	—	Long position
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 – 24.08.2009	1	1.25	—	450,000	Long position
CHENG Mo Chi, Moses	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000	Long position
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 – 24.08.2009	1	1.25	—	450,000	Long position
LI Wai Keung	700,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	700,000	Long position
	1,500,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	1,500,000	Long position
	1,500,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,500,000	Long position
	1,500,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,500,000	Long position
	1,500,000	—	—	07.05.2004 – 06.05.2009	1	1.59	—	1,500,000	Long position
	1,000,000	—	—	25.08.2004 – 24.08.2009	1	1.25	—	1,000,000	Long position
FUNG Sing Hong, Stephen	—	19.01.2005	1,500,000	20.04.2005 – 19.04.2010	1	2.575	—	1,500,000	Long position
WANG Xiaofeng	1,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000	Long position
	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000	Long position
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000	Long position
	650,000	—	—	25.08.2004 – 24.08.2009	1	1.25	—	650,000	Long position

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

(continued)

Interests and short positions in Kingway Brewery Holdings Limited

(i) *Interests in ordinary shares*

Name of Director	Capacity/ nature of interest	Number of ordinary shares held	Long/short position	Approximate percentage of holding
CHENG Mo Chi, Moses	Personal	600,000	Long position	0.043%
FUNG Sing Hong, Stephen	Personal	24,000	Long position	0.002%

Note: The number of ordinary shares of Kingway Brewery Holdings Limited in issue as at 31 December 2005 was 1,395,568,000.

(ii) *Interests in options relating to ordinary shares*

Name of Director	Number of options held as at 1 January 2005	Options granted during the year Date Number (dd.mm.yyyy)	Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per share payable on exercise of options HK\$	Number of options exercised during the year	Number of options held as at 31 December 2005	Long/Short Position
FUNG Sing Hong, Stephen	400,000	—	27.08.2003 – 26.08.2008	1	0.84	—	400,000	Long position
	400,000	—	07.05.2004 – 06.05.2009	1	1.93	—	400,000	Long position

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

Interests and short positions in Guangdong Tannery Limited

Interests in ordinary shares

Name of Director	Capacity/ nature of interest	Number of ordinary shares held	Long/short position	Approximate percentage of holding
FUNG Sing Hong, Stephen	Personal	226,000	Long position	0.043%

Note: The number of ordinary shares of Guangdong Tannery Limited in issue as at 31 December 2005 was 524,154,000.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

(continued)

Interests and short positions in Guangnan (Holdings) Limited

Interests in ordinary shares

Name of Director	Capacity/ nature of interest	Number of ordinary shares held	Long/short position	Approximate percentage of holding
LI Kwok Po, David	Personal	15,000	Long position	0.002%

Notes:

- (1) The number of ordinary shares of Guangnan (Holdings) Limited ("Guangnan") in issue as at 31 December 2005 was 901,583,285.
- (2) On 19 December 2005, every ten shares of par value HK\$0.05 each of Guangnan were consolidated into one share of par value HK\$0.5 each.

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executive of the Company had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a Director is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries or associated corporation a party to any arrangements to enable the Directors of the Company or their 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2005, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) have an interest or short position in the ordinary shares or underlying ordinary shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/nature of interest	Number of ordinary shares held	Long/short position	Approximate percentage of issued ordinary share capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note 1)	Beneficial owner/ Interest of controlled corporation	3,765,770,781	Long position	62.58%
GDH Limited (Note 2)	Beneficial owner/ Interest of controlled corporation	3,765,770,781	Long position	62.58%
Guangdong Trust Ltd.	Beneficial owner/ Interest of controlled corporation	576,404,918	Long position	9.58%

Notes:

1. The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100% direct interest in GDH.
2. The interest of GDH set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.

Save as disclosed above, no other person (other than a Director or chief executive of the Company) known to any Director or chief executive of the Company as at 31 December 2005 had an interest or short position in the ordinary shares or underlying ordinary shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDER

Save as disclosed in notes 33, 45 and 46 to the financial statements, the Company and the controlling shareholders of the Company had not entered into any other contracts of significance during the year.

CONNECTED TRANSACTIONS

Details of the connected transactions are disclosed in note 46 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the year, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Hong Kong Stock Exchange save and except:

- (i) the Company has issued the following new ordinary shares to certain option holders pursuant to the Company's share option scheme during the year:

No. of new ordinary shares issued	Exercise price per ordinary share HK\$	Cash consideration HK\$
30,000,000	0.5312	15,936,000
7,250,000	0.814	5,901,500
31,393,939	0.816	25,617,454
21,500,000	0.96	20,640,000
9,970,000	1.22	12,163,400
11,700,000	1.59	18,603,000
9,290,000	1.25	11,612,500
Total	121,103,939	110,473,854

- (ii) under the Earnout Agreement, the Company has agreed to allot and issue to GDH, 66,000,000 ordinary shares, for each of the five years commencing from 22 December 2000 (the "Earnout Period") (subject to adjustment, up to a total of 330,000,000 ordinary shares) upon the performance of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ("WaterCo") meeting the milestones as set out in the Earnout Agreement. As WaterCo had already met the performance milestones under the Earnout Agreement for the first, second, third, fourth and fifth years of the Earnout Period in September 2001, March 2002, September 2002, March 2003 and June 2003 respectively, the Company was obligated to issue a total of 330,000,000 ordinary shares to GDH in accordance with the Earnout Agreement. 66,000,000 ordinary shares were issued on 21 December 2005 to GDH. Further details of the Earnout Agreement and issuance of ordinary shares pursuant thereto are set out in notes 13, 37 and 39 to the financial statements, respectively.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES (continued)

- (iii) In 2003, GDI Finance (Cayman) 2003 Limited, a wholly-owned subsidiary of the Company, issued the HK\$497,320,000 2% five-year Convertible Bonds (the "Convertible Bonds") to GDH at the issue price of HK\$497,320,000. On 29 September 2005, the Convertible Bonds were converted by GDH into 268,801,460 ordinary shares (the "New Shares") of the Company at the conversion price of HK\$1.85 per share. The New Shares were credited as fully paid at HK\$1.85 per share.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 64.44% of the total sales for the year and sales to the Group's largest customer included therein amounted to 48.19%. Purchases from the Group's five largest suppliers accounted for less than 12.86% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 8.77%.

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 issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 50 to the financial statements.

PUBLIC FLOAT

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

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

LI Wenyue

Chairman

Hong Kong, 13 April 2006