

## 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 2006.

### PRINCIPAL ACTIVITIES

The Group was principally engaged in investment holding, property holding and investment, 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 2006 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 52 to 147.

An interim dividend of 5.0 HK cents (2005: 4.0 HK cents) per share was paid on 20 October 2006. The Directors recommend the payment of a final dividend of 5.0 HK cents (2005: 5.0 HK cents) per share for the year ended 31 December 2006. 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 11 June 2007, is expected to be paid on 21 June 2007 to shareholders whose names appear on the register of members of the Company on 11 June 2007.

The Register of Members will be closed from 7 June 2007 to 11 June 2007 (both dates inclusive), 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 6 June 2007.

## Report of the Directors

## 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

	2006 HK\$'000	Year ended 31 December			
		2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
				(Note)	(Note)
<b>REVENUE</b>					
Continuing operations	6,056,331	5,249,158	5,109,127	4,825,784	4,659,956
Discontinued operations	—	—	—	338,159	2,077,069
	<u>6,056,331</u>	<u>5,249,158</u>	<u>5,109,127</u>	<u>5,163,943</u>	<u>6,737,025</u>
<b>PROFIT FROM OPERATING ACTIVITIES AFTER FINANCE COSTS</b>	<b>1,926,710</b>	1,623,732	1,159,547	1,555,490	356,614
Share of profits of jointly-controlled entities	66,858	66,023	33,886	63,359	62,320
Share of profits less losses of associates	<u>54,173</u>	<u>38,420</u>	<u>44,660</u>	<u>53,713</u>	<u>111,208</u>
	<u>2,047,741</u>	<u>1,728,175</u>	<u>1,238,093</u>	<u>1,672,562</u>	<u>530,142</u>
<b>PROFIT BEFORE TAX</b>					
Continuing operations	2,047,741	1,728,175	1,238,093	1,650,584	452,862
Discontinued operations	—	—	—	21,978	77,280
	<u>2,047,741</u>	<u>1,728,175</u>	<u>1,238,093</u>	<u>1,672,562</u>	<u>530,142</u>
<b>TAX</b>					
Continuing operations	(268,724)	(218,163)	(159,235)	(221,793)	(217,359)
Discontinued operations	—	—	—	(1,794)	(20,559)
	<u>(268,724)</u>	<u>(218,163)</u>	<u>(159,235)</u>	<u>(223,587)</u>	<u>(237,918)</u>
<b>PROFIT BEFORE MINORITY INTERESTS</b>	<b>1,779,017</b>	1,510,012	1,078,858	1,448,975	292,224
Minority interests	<u>(272,114)</u>	<u>(206,517)</u>	<u>(183,082)</u>	<u>(342,254)</u>	<u>(97,320)</u>
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<b><u>1,506,903</u></b>	<u>1,303,495</u>	<u>895,776</u>	<u>1,106,721</u>	<u>194,904</u>

## Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION (continued)

## Assets, liabilities and minority interests

	2006 HK\$'000	As at 31 December			
		2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
				(Note)	(Note)
PROPERTY, PLANT AND EQUIPMENT	7,544,787	7,722,849	7,978,794	12,737,077	9,860,868
PROPERTIES UNDER DEVELOPMENT	—	15,342	4,631	37,141	69,600
INVESTMENT PROPERTIES	2,385,480	2,302,685	2,085,292	2,106,139	2,289,280
PREPAID LAND LEASE PAYMENTS	4,175,244	4,058,923	4,199,344	—	—
GOODWILL AND NEGATIVE GOODWILL, NET	216,127	139,346	(176,070)	(120,767)	(130,411)
INTERESTS IN JOINTLY-CONTROLLED ENTITIES	915,052	917,756	1,014,362	961,297	968,130
INTERESTS IN ASSOCIATES	484,156	483,415	452,679	371,404	423,617
CONTRACTUAL JOINT VENTURE	—	46,569	—	—	77,340
INTANGIBLE ASSETS	11,655,088	12,148,375	12,641,662	13,134,949	13,628,236
OTHER ASSETS	2,775,324	2,704,296	2,149,863	2,311,506	5,008,572
DEFERRED TAX ASSETS	22,604	9,563	4,562	3,617	37,896
<b>TOTAL ASSETS</b>	<b>30,173,862</b>	<b>30,549,119</b>	<b>30,355,119</b>	<b>31,542,363</b>	<b>32,233,128</b>
BONDS	—	—	(442,167)	(994,640)	(417,085)
FLOATING RATE NOTES	—	—	—	—	(245,282)
OTHER LOANS AND LIABILITIES	(15,120,078)	(16,875,912)	(17,465,929)	(18,764,207)	(19,625,306)
DEFERRED TAX LIABILITIES	(641,794)	(592,217)	(527,113)	(881,907)	(819,016)
<b>TOTAL LIABILITIES</b>	<b>(15,761,872)</b>	<b>(17,468,129)</b>	<b>(18,435,209)</b>	<b>(20,640,754)</b>	<b>(21,106,689)</b>
<b>MINORITY INTERESTS</b>	<b>(1,789,403)</b>	<b>(1,602,701)</b>	<b>(1,875,228)</b>	<b>(1,969,304)</b>	<b>(2,306,455)</b>
<b>NET ASSETS</b>	<b>14,411,990</b>	<b>13,080,990</b>	<b>11,919,910</b>	<b>8,932,305</b>	<b>8,819,984</b>

Note: The new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK-Ints")), of which 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.

## Report of the Directors

### 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.

### 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 2006, 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\$766,797,000.

### CHARITABLE CONTRIBUTIONS

The Group made charitable contributions of HK\$7,798,400 during the year (2005: 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 2006:

Date of Grant : 10/03/2006  
 Vesting Period : 10/03/2006–10/06/2006  
 Exercise Period : 11/06/2006–10/06/2011  
 Exercise Price : HK\$3.405 per share

	Number of options at 10/03/2006	Options value at 10/03/2006 HK\$	Number of options at 31/12/2006	Options value at 31/12/2006 HK\$
		(Note (2))		(Note (3))
Grantee:				
Employees	3,400,000	3,366,000	3,400,000	3,128,000
Total	3,400,000	3,366,000	3,400,000	3,128,000

## Notes:

- (1) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK\$3.30.
- (2) According to the Black-Scholes model<sup>1</sup>, the theoretical aggregate value of the options was estimated at HK\$3,366,000 as at 10 March 2006 (when the options were granted) with the following variables and assumptions:
- Risk Free Rate : 4.33%, being the approximate yield of the 5-year exchange fund note traded on 10/03/2006
- Expected Volatility : 36.1%, being the annualised volatility of the closing price of the ordinary shares of the Company from 11/03/2005 to 10/03/2006
- Expected Dividend Yield : 2.29%, being the approximate yield of the shares of the Company over the period from 11/03/2005 to 10/03/2006
- Expected Life of the Options : 5.25 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 11/03/2005 to 10/03/2006.

## Report of the Directors

### SHARE OPTIONS OF THE COMPANY (continued)

Notes: (continued)

- (3) According to the Black-Scholes model<sup>1</sup>, the theoretical aggregate value of the outstanding options was estimated at HK\$3,128,000 as at 31 December 2006 with the following variables and assumptions:

Risk Free Rate	:	3.69%, being the approximate yield of the 5-year Exchange Fund Note traded on 31/12/2006
Expected Volatility	:	33.53%, being the annualised volatility of the closing price of the ordinary shares of the Company from 01/01/2006 to 31/12/2006
Expected Dividend Yield	:	2.85%, being the approximate yield of the shares of the Company over the period from 01/01/2006 to 31/12/2006
Expected Life of the Options	:	4.43 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 01/01/2006 to 31/12/2006.

- (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 or its holding companies, or any of its subsidiaries or its fellow subsidiaries, 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*)

<sup>△</sup> LI Wai Keung (*Chief Financial Officer*)

\*CHAN Cho Chak, John

\*LI Kwok Po, David

\*FUNG, Daniel Richard

#CHENG Mo Chi, Moses

#JIANG Jin (appointed on 15 December 2006)

#ZHAI Zhiming (appointed on 21 April 2006)

#SUN Yingming (appointed on 15 December 2006)

#WANG Xiaofeng

#XU Wenfang

FUNG Sing Hong, Stephen (resigned on 19 July 2006)

\* Independent Non-Executive Director

# Non-Executive Director

<sup>△</sup> Previously a Non-Executive Director but has since been appointed as Chief Financial Officer and re-designated as an Executive Director with effect from 19 July 2006

Messrs. LI Wai Keung, CHAN Cho Chak, John and LI Kwok Po, David will retire by rotation in accordance with Article 77 of the Articles of Association of the Company at the forthcoming annual general meeting. Messrs. JIANG Jin and SUN Yingming will retire in accordance with Article 73 of the Articles of Association of the Company at the forthcoming annual general meeting. Being eligible, Messrs. LI Wai Keung, CHAN Cho Chak, John, LI Kwok Po, David, JIANG Jin and SUN Yingming will offer themselves for re-election.

Messrs. CHAN Cho Chak, John and LI Kwok Po, David, Independent Non-Executive Directors, and Messrs. JIANG Jin and SUN Yingming, 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 2010 and (ii) 30 June 2010 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 26 to 29 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, its holding companies or a subsidiary of its holding companies was a party during the year or as at 31 December 2006.

## Report of the Directors

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2006, Messrs. LI Wen Yue, JIANG Jin and ZHAI Zhiming, Directors of the Company, were also directors of 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment") and GDH Limited ("GDH"). Messrs. LI Wai Keung and SUN Yingming, Directors of the Company, were also directors 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 2006, the Directors and chief executives of the Company and their respective associates had the following interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

#### Interests and short positions in the Company

##### (i) *Interests in ordinary shares*

Name of Directors	Capacity/ nature of interest	Number of ordinary shares held	Long/short position	Approximate Percentage of holding
LI Wen Yue	Personal	16,400,000	Long position	0.269%
LI Wai Keung	Personal	3,700,000	Long position	0.061%
CHAN Cho Chak, John	Personal	4,000,000	Long position	0.066%
LI Kwok Po, David	Personal	4,000,000	Long position	0.066%
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 2006 was 6,090,948,071.



## 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

Name of Director	Number of options held as at 1 January 2006	Options granted during the year		Period during which share options is exercisable	Total consideration paid for share options	Price per ordinary share payable on exercise of options	Number of options exercised during the year	Number of options held as at 31 December 2006	Long/Short Position
		Date	Number	(dd.mm.yyyy)	options	HK\$		2006	
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
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
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

## 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 2006	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 2006	Long/Short Position
LI Kwok Po, David	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
FUNG, Daniel R.	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
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.

## Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

## Interests and short positions in Kingway Brewery Holdings Limited

*Interests in ordinary shares*

Name of Directors	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%
WANG Xiaofeng	Personal	50,000	Long position	0.004%

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

## Interests and short positions in Guangnan (Holdings) Limited

*Interests in ordinary shares*

Name of Directors	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%
JIANG Jin	Personal	100,000	Long position	0.011%
WANG Xiaofeng	Personal	40,000	Long position	0.004%

Note: The number of ordinary shares of Guangnan (Holdings) Limited in issue as at 31 December 2006 was 901,583,285.

Save as disclosed above, as at 31 December 2006, to the knowledge of the Company, none of the Directors or chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the year was the Company or its holding companies, or any of its subsidiaries or its fellow subsidiaries 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

### SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2006, 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) had interests in five per cent or more of the issued share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and details of the interests in the shares or underlying shares of the Company as notified to the Company are set out below:

Name of Shareholders	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	61.83%
GDH Limited (Note 2)	Beneficial owner/ Interest of controlled corporation	3,765,770,781	Long position	61.83%
Guangdong Trust Ltd.	Beneficial owner/ Interest of controlled corporation	576,404,918	Long position	9.46%

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 Limited.
2. The interest of GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.

Save as disclosed above, no other persons (other than a Director or chief executive of the Company) known to any Director or chief executive of the Company as at 31 December 2006 had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in notes 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.

## Report of the Directors

### 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 that 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\$
26,000,000	0.5312	13,811,200
700,000	0.74	518,000
29,500,000	0.814	24,013,000
9,400,000	0.96	9,024,000
3,500,000	1.22	4,270,000
2,100,000	1.59	3,339,000
730,000	1.25	912,500
1,500,000	2.575	3,862,500
<b>Total</b>		<b>59,750,200</b>

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 61% of the total sales for the year and sales to the Group's largest customer included therein amounted to 41%. Purchases from the Group's five largest suppliers accounted for 21% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 10%.

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 2007