



## DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of Poly (Hong Kong) Investments Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2006.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 55 to the consolidated financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 40 of the annual report.

No interim dividend was paid during the year. The directors recommend the payment of a final dividend of HK\$0.02 per share to the shareholders on the register of members on 25th May, 2007.

### SHARE CAPITAL

During the year, the Company issued and allotted ordinary shares by way of rights issue at a subscription price of HK\$1.35 each per rights share to the existing shareholders on the basis of one rights share for every two existing shares held.

Details of the above and other movements in the share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

### INVESTMENT PROPERTIES

At 31st December, 2006, the investment properties of the Group were revalued by an independent firm of professional surveyor and property valuer on an open market value basis at HK\$1,566,695,000.

Details of these and other movements in the investment properties of the Group for the year are set out in note 16 to the consolidated financial statements.

### PROPERTY, PLANT AND EQUIPMENT

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



## DIRECTORS' REPORT

### DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserve available for distribution to shareholders as at 31st December, 2006 represents the accumulated profits of HK\$87,251,000 (2005: HK\$64,912,000).

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

#### Executive directors:

Wang Jun ( <i>Chairman</i> )	
He Ping ( <i>Vice-Chairman</i> )	
Zhang Zhen Gao ( <i>Managing Director</i> )	(appointed on 20th April, 2006)
Chen Hong Sheng	
Chan Tak Chi, William	
Xue Ming	(appointed on 20th April, 2006)
Ye Li Wen	(appointed on 13th November, 2006)
Li Shi Liang ( <i>Managing Director</i> )	(deceased on 5th July, 2006)

#### Non-executive director:

Ip Chun Chung, Robert

#### Independent non-executive directors:

Yao Kang, J.P.  
Choy Shu Kwan, Wilson  
Lam Tak Shing

In accordance with Article 99 of the Company's Articles of Association, Messrs. Zhang Zhen Gao, Xue Ming and Ye Li Wen, who were appointed as directors during the year will retire and being eligible, offer themselves for re-election.

In accordance with Article 116 of the Company's Articles of Association, Messrs. Chen Hong Sheng, Ip Chun Chung, Robert and Lam Tak Shing will retire and being eligible, offer themselves for re-election.

The term of office of the non-executive director and each independent non-executive director is three years from 6th October, 2005, subject to retirement by rotation as required by the Company's Articles of Association.

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



## DIRECTORS' REPORT

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

The Company has received an annual written confirmation from each of the independent non-executive directors concerning their independence and considered that the independent non-executive directors to be independent in accordance with the independence guidelines set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

### DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2006, the interest of the directors of the Company in the underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("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 were as follows:

#### Long positions

##### *Share options of the Company*

Name of director	Capacity	Number of options held	Number of underlying shares
Wang Jun	Beneficial owner	24,400,000	24,400,000
He Ping	Beneficial owner	24,400,000	24,400,000
Chen Hong Sheng	Beneficial owner	8,000,000	8,000,000
Zhang Zhen Gao	Beneficial owner	5,600,000	5,600,000
Ye Li Wen	Beneficial owner	900,000	900,000
Chan Tak Chi, William	Beneficial owner	300,000	300,000
Ip Chun Chung, Robert	Beneficial owner	300,000	300,000
Yao Kang, J.P.	Beneficial owner	500,000	500,000
Lam Tak Shing	Beneficial owner	300,000	300,000
Choy Shu Kwan, Wilson	Beneficial owner	300,000	300,000
		<u>65,000,000</u>	<u>65,000,000</u>

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2006.

### SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 37 to the consolidated financial statements.



## DIRECTORS' REPORT

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

### SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that, at 31st December, 2006, the following shareholders had notified the Company of their interests in the issued share capital of the Company.

#### Long positions

##### Ordinary shares of HK\$0.5 each of the Company

Name of shareholder	Number of shares		Total number of shares	Percentage of the issued share capital of the Company
	Beneficial owner	Held by controlled corporation(s)		
Congratulations Company Ltd.	417,985,080	–	417,985,080	31.06%
Source Holdings Limited	228,398,760	100,086,800 (Note 1)	328,485,560	24.41%
Ting Shing Holdings Limited	–	746,470,640 (Note 2)	746,470,640	55.46%
Ringo Trading Limited	101,388,476	746,470,640 (Note 3)	847,859,116	63.00%
China Poly Group Corporation	–	847,859,116 (Note 4)	847,859,116	63.00%
Chee Ying Cheung	80,952,000	–	80,952,000	6.01%
Humphreys Estate (Strawberry Houses) Limited	80,758,000	–	80,758,000	6.00%
Tomson Group Limited	–	80,758,000 (Note 5)	80,758,000	6.00%
Hsu Feng	–	80,758,000 (Note 6)	80,758,000	6.00%



## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS *(Continued)*

#### Long positions *(Continued)*

Notes:

1. Source Holdings Limited is deemed by the SFO to be interested in 328,485,560 shares of the Company as a result of its direct holding of 228,398,760 shares and indirect holdings of 100,086,800 shares through its wholly-owned subsidiaries, Musical Insight Holdings Limited and Wincall Holding Limited of 44,658,800 shares and 55,428,000 shares, respectively.
2. Ting Shing Holdings Limited is deemed by the SFO to be interested in 746,470,640 shares as a result of its indirect holding of 746,470,640 shares through its subsidiaries, Source Holdings Limited and Congratulations Company Ltd.
3. Ringo Trading Limited is deemed by the SFO to be interested in 847,859,116 shares as a result of its direct holding of 101,388,476 shares and indirect holding of 746,470,640 shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
4. China Poly Group Corporation owns 100% of Ringo Trading Limited and is accordingly deemed by the SFO to be interested in the shares directly and indirectly owned by Ringo Trading Limited.
5. Tomson Group Limited is deemed by the SFO to be interested in 80,758,000 shares held by its indirect wholly-owned subsidiary, Humphreys Estate (Strawberry Houses) Limited.
6. Ms. Hsu Feng is a substantial shareholder of Tomson Group Limited and is accordingly deemed by the SFO to be interested in 80,758,000 shares held by Tomson Group Limited.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued shares or underlying shares of the Company as at 31st December, 2006.

### CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 52 to the consolidated financial statements. In the opinion of the directors who do not have any interest in these transactions, the transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.



## DIRECTORS' REPORT

### CONNECTED TRANSACTIONS *(Continued)*

The independent non-executive directors of the Company had reviewed the connected transactions set out in note 52 to the consolidated financial statements and in their opinion:

1. the on-going connected transactions were entered into in the ordinary and usual course of business of the Group;
2. the on-going connected transactions were conducted on normal commercial terms; and
3. the on-gong connected transactions were entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

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

### EMOLUMENT POLICY

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits including insurance and medical cover and share options are also provided.

The determination of emoluments of the directors of the Company has taken into consideration their expertise and job specifications.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.



## DIRECTORS' REPORT

### POST BALANCE SHEET EVENTS

Details of the significant events after the balance sheet date are set out in note 54 to the consolidated financial statements.

### AUDITORS

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

On behalf of the Board

**Zhang Zhen Gao**

*MANAGING DIRECTOR*

23rd April, 2007